

BEFORE EXAMINER UTZ

OIL CONSERVATION COMMISSION

*Schir* EXHIBIT NO. 1

CASE NO. 3049 + 3050

---

**UNIT AGREEMENT**

**LITTMAN SAN ANDRES UNIT**

**LEA COUNTY, NEW MEXICO**

**ANDREWS COUNTY, TEXAS**

---

INDEX

UNIT AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO AND ANDREWS COUNTY, TEXAS

	<u>Page</u>
Opening	1
Whereas's	1
Article 1 - Enabling Act and Regulations	2
Article 2 - Definitions	2
Article 3 - Exhibits	4
3.1 Exhibits Attached	4
3.2 Reference to Exhibits	5
3.3 Exhibits Considered Correct	5
3.4 Revision of Exhibits	5
3.5 Recording of Revised Exhibits	5
Article 4 - Unit Area and Unitized Substances	5
Article 5 - Enlargement of Unit Area	5
5.1 Enlargement	5
5.2 The Effective Date of Enlargement	6
Article 6 - Unit Operator	6
Article 7 - Resignation or Removal of Unit Operator	6
Article 8 - Successor Unit Operator	7
Article 9 - Accounting Provisions and Unit Operating Agreement	8
Article 10- Rights and Obligations of Unit Operator	8
Article 11- Plan of Operations	8
Article 12- Tract Participation	9
Article 13- Tracts Qualified	10
13.1 Qualification of Tracts	10
13.2 Revision of Exhibit "C"	10

## INDEX

Page 2

	<u>Page</u>
Article 14 - Allocation of Unitized Substances	11
14.1 Allocation to Tracts	11
14.2 Distribution Within Tracts	11
14.3 Ownership Prior to Effective Date or Dates	12
14.4 Responsibility to Royalty Owner	12
Article 15 - Disposition of Unitized Substances	12
Article 16 - Royalty Settlement	13
Article 17 - Rental Settlement	13
Article 18 - Conservation	14
Article 19 - Drainage	14
Article 20 - Leases and Contracts Conformed and Extended	14
Article 21 - Covenants Run With the Land	16
Article 22 - Effective Date and Term	16
22.1 When Agreement Effective	16
22.2 Expiration Before It Becomes Effective	17
22.3 Term	17
22.4 Effect of Termination	17
22.5 Certificate of Termination	18
Article 23 - Production As Of the Effective Date	18
Article 24 - Rate of Prospecting, Development and Production	18
Article 25 - Appearances	19
Article 26 - Notices	19
Article 27 - No Waiver of Certain Rights	20
Article 28 - Non-Liability - Force Majeure	20
Article 29 - Non-Discrimination	20
Article 30 - Titles	20

## INDEX

Page 3

	<u>Page</u>
30.1 Exclusion of Qualified Tract	20
30.2 Revision of Exhibits	21
30.3 Retention of Tract	21
30.4 Production Where Title Is in Dispute	21
Article 31 - Non-Joinder and Subsequent Joinder	21
31.1 Non-Qualified and Non-Committed Tracts	21
31.2 Prior to Six (6) Months After Effective Date	22
31.3 Subsequent to Six (6) Months After Effective Date	22
31.4 Effective Date of Joinder	22
31.5 Acquisition of Uncommitted Interests	22
Article 32 - Counterparts and Ratifications	22
32.1 Counterparts	22
32.2 Ratification	23
32.3 Joinder by Working Interest Owner in Unit Operating Agreement	23
Article 33 - Unleased Interests	23
Article 34 - Injection Rights; Easements; Water	23
Article 35 - Oil and Gas Interest Not Transferred	23
Article 36 - Reports	24
Article 37 - Taxes	24
Article 38 - Internal Revenue Provisions	24
Article 39 - Variable Interests	24
Article 40 - Conflict of Supervision	25
Article 41 - Laws and Regulations	25
41.1 Effect on Agreement	25

INDEX

	Page 4
Article 42 - Relationship of Parties	<u>Page</u>
42.1 No Partnership Created	25
42.2 No Sharing of Market	25
42.3 Royalty Owners Free of Costs	26
	26

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

LITTMAN SAN ANDRES UNIT

LITTMAN SAN ANDRES FIELD

LEA COUNTY, NEW MEXICO AND ANDREWS COUNTY, TEXAS

No. \_\_\_\_\_

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

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of Working, Royalty or other oil or gas interests in the Unit Area, as hereinafter defined, which has been reasonably developed for production of oil and/or gas from the San Andres formation; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chap. 88, Laws of 1943 as amended by Section 1, Chapter 176, Laws of 1961) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and is authorized by an Act of the Legislature (Section 3, Chap. 88, Laws of 1943, as amended by Section 1, Chap. 162, Laws of 1951) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such unitized development and operation of State lands; and

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

WHEREAS, in conformity with the provisions of Article 6008b of Title 102, Vernon's Annotated Civil Statutes of the State of Texas, it is necessary to establish the Littman San Andres Unit in order to effect secondary recovery operations for oil and gas from the San Andres formation, which operations are designed to conserve oil and gas, to prevent waste and to increase the ultimate recovery of oil therefrom while protecting the rights of all owners of interests in the Littman San Andres Field; and

WHEREAS, the parties hereto hold sufficient interests in the Littman San Andres Unit covering the land hereinafter described to give reasonably effective control of operations therein;

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

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

#### ARTICLE 1

##### ENABLING ACT AND REGULATIONS

1.1 The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the States, in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

#### ARTICLE 2

##### DEFINITIONS

As used in this agreement:

2.1 "Commission" means the Oil Conservation Commission of the State of New Mexico.

2.2 "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

2.3 "Department" means the Department of the Interior of the United States of America.

2.4 "Director" means the Director of the United States Geological Survey.

2.5 "Effective Date" means the time when this agreement becomes effective, as hereinafter provided.

2.6 "Paying Quantities" means production of Unitized Substances in quantities sufficient to pay the costs of producing same from wells within the Unit Area with a reasonable profit.

2.7 "Railroad Commission" means the Railroad Commission of Texas.

2.8 "Royalty Interest " or "Royalty" means an interest in a tract, other than Working Interest, which entitles the owner thereof to share in the Unitized Substances produced from such tract, or in the proceeds or value thereof.

2.9 "Royalty Owner" means the owner of a Royalty Interest.

2.10 "Secretary" means the Secretary of the Interior of the United States of America or any person duly authorized to exercise the powers vested in that office.

2.11 "Supervisor" means the Oil and Gas Supervisor of the United States Geological Survey having jurisdiction for the region in which the Unitized Land is situated.

2.12 "Tract" means a parcel of land described and given a Tract number in Exhibit "B".

2.13 "Tract Participation" means that percentage of Unitized Substances produced from the Unitized Formation which is allocated to a Tract under this agreement.

2.14 "Unit Area" means the land described by Tracts in Exhibit "B" and shown in outline on Exhibit "A", containing as shown 1941.38 acres, more or less. The portion thereof situated in New Mexico and Texas will sometimes be referred to herein as the "New Mexico Subdivision of Unit Area" and the "Texas Subdivision of Unit Area".

2.15 "Unit Manager" means the person or corporation appointed by Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Articles 7 and 8 hereof.

2.16 "Unit Operating Agreement" means the agreement entitled "Unit Operating Agreement, Littman San Andres Unit, Lea County, New Mexico and Andrews County, Texas" bearing the same date as this Agreement and entered into by the Working Interest Owners who are parties to this agreement, and includes any amendments thereto.

2.17 "Unit Operator" means, at any time, the person, firm, or corporation then designated and acting as such in accordance with the Unit Operating Agreement.

2.18 "Unitized Formation" means that subsurface portion of the Unit Area which is subject to this Agreement and is commonly known as the San Andres formation of the Guadalupe Series, a part of the Permian system, which is produced from the subsurface depths of 4316 feet to 4354 feet in the Neville G. Penrose, Inc., #1 Lydia Littman well located in the NE/4 SE/4 of Sec. 6, Block A-29, PSL Survey, Andrews County, Texas, plus an additional 150 feet below the latter depth in said well.



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

2.20 "Usable Well" means a well which has been drilled within the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use either as a producing well or an injection well, and on which well there has been filed with the Commission or with the Railroad Commission, on or before the effective date of this Agreement, a well record and completion report (Form C-105 in New Mexico and Form 2, Texas Railroad Commission) and/or Request for Allowable (Form C-104 in New Mexico and Form 3, Texas Railroad Commission), and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Commission or by the Railroad Commission.

2.21 "Voting Interest" means the voting power possessed by a Working Interest Owner as defined in the Unit Operating Agreement.

2.22 "Waterflood Acre-Feet" means the volume of net pay (as determined from sample logs and other available data) of Unitized Formation contained within the Waterflood Acre-Feet limit line shown on the attached Exhibit "A".

2.23 "Working Interest" means an interest in a Tract by virtue of a lease, operating agreement, fee title, or otherwise under which the owner of such interest is vested with the right to explore for, develop and produce such substances and which is chargeable with and obligated to pay or bear in cash or out of production or otherwise all or a portion of the cost of drilling, producing and other operations for the production of Unitized Substances from such Tract, in the absence of unitization. The right delegated to the Unit Operator as such by the Unit Operating Agreement is not to be regarded as a Working Interest.

2.24 " Working Interest Owner" means the owner of a Working Interest.

### ARTICLE 3

#### EXHIBITS

3.1 Exhibits Attached. Attached hereto are the following exhibits which constitute a part of this agreement:

Exhibit "A", which is a map showing in addition to the boundary of the Unit Area the boundaries and identity of Tracts and leases within said Unit Area to the extent known by the Unit Operator.

Exhibit "B", which is a schedule showing to the extent known to the Unit Operator a description of each Tract, the leases thereon, and showing its Tract number and the percentage and kind of ownership.

Exhibit "C", which is a schedule of the Tracts within the Unit Area which are reasonably proved to be productive of Unitized

Substances and for each tract is shown the description, the leases thereon, the Tract number, and Tract Participation.

3.2 Reference to Exhibits. Reference in this agreement to exhibits shall mean the exhibits attached hereto except that from and after the time at which a revision to an exhibit becomes effective reference to such exhibit shall mean the then latest revision thereof.

3.3 Exhibits Considered Correct. For all purposes of this agreement said exhibits shall be considered to be true and correct unless and until they are revised or corrected in accordance with this Agreement.

3.4 Revision of Exhibits. Exhibits "A", "B", and "C" shall be revised by the Unit Operator whenever changes render such revision necessary or to correct any mathematical or other errors which might exist in said exhibits.

3.5 Recording of Revised Exhibits. Whenever an exhibit is revised in accordance with the terms and provisions hereof, the Unit Operator shall certify to the revised exhibit and shall file it for record in Lea County, New Mexico, and Andrews County, Texas, and with the Supervisor and with the Commissioner.

#### ARTICLE 4

##### UNIT AREA AND UNITIZED SUBSTANCES

4.1 The Unit Area shall be that as defined under 2.14 hereof. All oil and gas in or that may be produced from the Unitized Formation underlying the lands within the Unit Area together with the right to use the surface of such lands for the development and operation of the Unitized Formation are unitized under the terms of this agreement. Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as hereinabove defined.

#### ARTICLE 5

##### ENLARGEMENT OF UNIT AREA

5.1 Enlargement. The above described Unit Area shall when practicable be expanded to include any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

5.1.1 Unit Operator when authorized by a vote of at least ninety per cent (90%) of the combined voting interests, after preliminary concurrence of the Director and the Commissioner, shall:

- a. Prepare a notice of the proposed expansion, describing the contemplated changes in the boundary of the Unit Area, the reason therefor and the proposed effective date thereof, delivering copies of the notice to the Supervisor and the Commissioner, and mailing copies to

the last known address of each lessee, lessor and Working Interest Owner whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections, and

b. Upon expiration of said thirty (30) day period as set out immediately above Unit Operator shall file with the Director, Commissioner, Commission and Railroad Commission the following:

- i. Evidence of mailing of the notice of expansion;
- ii. A copy of any objections thereto which have been filed with the Unit Operator;
- iii. An application for such expansion;
- iv. An instrument containing the appropriate joiners in compliance with the participation requirements of Article 31 hereof.

5.2 The Effective Date of Enlargement. An enlargement of the Unit Area shall, after due consideration of all pertinent information and upon approval by the Director, Commission, Commissioner, and Railroad Commission, become effective at 7:00 o'clock A.M. on the date set forth in said notice.

## ARTICLE 6

### UNIT OPERATOR

6.1 SOHIO PETROLEUM COMPANY is hereby designated as Unit Operator, and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the operations, development and production of Unitized Substances as herein provided.

6.2 Whenever reference is made herein or in the Unit Operating Agreement to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of an interest in Unitized Substances; and the term "Working Interest Owner" or the term "Royalty Owner" as so used, shall include Unit Operator as the owner of a Working Interest or Royalty Interest, respectively, when such interest is owned by it.

## ARTICLE 7

### RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Unit Operator shall have the right to resign at any time, but such

resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Director, Commission, Commissioner, and the Railroad Commission and until all wells then subject hereto are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to Federal lands and by the Commission and Railroad Commission as to State and/or fee lands unless a new Unit Operator or Unit Manager shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

7.3 The Working Interest Owners may remove the Unit Operator by the affirmative vote of eighty-five per cent (85%) of the Voting Interest of all the Working Interest Owners other than the one acting as Unit Operator. Such removal shall be effective upon notice thereof to the Unit Operator, the Director and the Commissioner.

7.4 In all such instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, preferably at least thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

7.5 The resignation or removal of Unit Operator, under this agreement, shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, appurtenances and any other assets, used in conducting the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

7.6 Sale or other disposition of all its Working Interest in the Unit Area by Unit Operator will operate automatically to effect the removal of Unit Operator. No sale or disposition of Working Interest by Unit Operator shall include or pass the right to act as Unit Operator.

## ARTICLE 8

### SUCCESSOR UNIT OPERATOR

8.1 Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners in accordance with the terms and provisions of the Unit Operating Agreement. Such selection shall not become effective until (a) a Unit Operator so selected shall accept, in writing, the duties and responsibilities of Unit Operator, and (b) the selection shall have

been filed with the Supervisor and approved by the Commissioner. If no successor Unit Operator or Unit Manager is selected and qualified as provided herein, the Director and Commissioner at their election may declare this Unit Agreement terminated.

## ARTICLE 9

### ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 Costs and expenses incurred by Unit Operator in conducting Unit operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners and Unit Operator, herein referred to as Unit Operating Agreement. However, nothing contained herein or in the Unit Operating Agreement shall obligate any Working Interest Owner or the Unit Operator to bear or pay any tax upon any Royalty Interest or upon the production or sale of Unitized Substances accruing or allotted thereto or any tax measured by such production or the value or proceeds of sale thereof. Such Unit Operating Agreement may also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing to them in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners. However, no such operating agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligations established under this Unit Agreement; and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Supervisor, prior to approval of this agreement by the Director, and two true copies shall be filed with the Commissioner.

## ARTICLE 10

### RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 Except as otherwise specifically provided herein or in the Unit Operating Agreement, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary for producing, storing, allocating and distributing the Unitized Substances, are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer to Unit Operator title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

## ARTICLE 11

### PLAN OF OPERATIONS

11.1 It is recognized and agreed by the parties hereto that the land

subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities or necessary for Unit Operations and that the object and purpose of this Agreement is to formulate and put into effect a secondary recovery project in order to effect the increased recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that Unit Operator may, subject to the consent and approval of a plan of operation by Working Interest Owners, the Supervisor, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances, whether produced from the Unit Area or not.

11.2 Unitized Substances produced from wells in the New Mexico and Texas Subdivisions of the Unit Area, respectively, shall be separately measured and sold, and reported separately to the proper governmental authorities of the two states. In case of any Unitized Substance which is stored in tanks or other facilities, the storage tanks or facilities for the production from the two subdivisions shall be separate from each other. It is recognized that the proper governmental authorities respectively of each of the two states will or may provide for separate allowables of production of Unitized Substances from each of the two subdivisions, however, the provisions of this paragraph 11.2 shall not alter or affect the computation and definition of the Tract Participation of the Tracts as herein elsewhere set forth; nor shall this Unit Agreement operate to create separate units for the New Mexico and Texas Subdivisions of the Unit Area — it being agreed that only one unit is created hereby.

11.3 The Working Interest Owners, Supervisor, Commissioner, Commission and Railroad Commission shall be furnished periodical reports of the plan of operation and any revisions or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to consent and approval of the Working Interest Owners, the Supervisor, Commissioner, Commission, and Railroad Commission.

11.4 The initial plan of operation shall be filed with the Supervisor, Commissioner, Commission, and Railroad Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor, Commissioner, Commission and Railroad Commission may determine to be necessary for timely operation consistent herewith. The initial plan of operation shall include a pilot water flood to determine the feasibility of water flooding the Unit Area.

11.5 Reasonable diligence shall be exercised in complying with the approved plan of development and operation, however, notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary recovery operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Director and Commissioner or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties.

## ARTICLE 12

### TRACT PARTICIPATION

12.1 Tract Participation of each Tract is based upon the summation of four factors weighted as follows, to wit:

12.1.1 10% times the ratio of the total number of Usable Wells

upon the Tract to the total number of Usable Wells in the Unit Area.

- 12.1.2 20% times the ratio of total number of Waterflood Acre-Feet in the Tract to the total number of Waterflood Acre-Feet in the Unit Area.
- 12.1.3 40% times the ratio of total accumulated primary production of oil from the Tract from first production to October 1, 1961, to total accumulated primary production of oil from the Unit Area for said period.
- 12.1.4 30% times the ratio of the total remaining primary production of oil from the Tract to the total remaining primary production of oil from the Unit Area from and after October 1, 1961.

### ARTICLE 13

#### TRACTS QUALIFIED

13.1 Qualification of Tracts. On and after the effective date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom, shall be those Tracts within the Unit Area, and more particularly described in Exhibit "B" that are qualified as follows:

- 13.1.1 Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein, have signed or ratified this agreement and Royalty Owners owning one hundred per cent (100%) of the Royalty Interest therein have signed or ratified this agreement; or
- 13.1.2 Each Tract as to which Working Interest Owners owning not less than ninety-five per cent (95%) of the Working Interest therein have signed or ratified this Agreement and Royalty Owners owning not less than seventy-five per cent (75%) of the Royalty Interest therein have signed or ratified this Agreement, and in which the Working Interest Owners in said Tract who have signed or ratified this Agreement have agreed to indemnify and hold harmless all other parties hereto against any and all claims and demands that may be made by the nonjoining Working Interest Owners and/or Royalty Owners on account of the inclusion of such Tract in the Unit Area and the operation of the Unit Area on the basis herein set forth; provided, however, that the manner of such indemnity and the inclusion of such Tract in the Unit Area shall have been approved by Working Interest Owners owning eighty-five per cent (85%) of the combined Voting Interest attributable to all of the Tracts which have qualified under Section 13.1.1 above.

13.2 Revision of Exhibit C. If less than all Tracts are committed

hereto as of the effective date of this agreement, Unit Operator, as soon as practicable after such date, shall file with the Supervisor and Commissioner a schedule of Qualified Tracts as of said effective date. Said schedule shall be designated "First Revised Exhibit C" and shall set forth opposite each such Qualified Tract a revised Tract Participation which shall be computed according to the formula set out in Article 12 hereof. Unless disapproved by the Supervisor and the Commissioner within thirty (30) days after filing, said First Revised Exhibit "C" shall become effective as of the effective date hereof.

If after the effective date of this agreement, there is any tract subsequently committed hereto, as provided in Article 5 (Enlargement of Unit Area) hereof, or any non-committed tract subsequently committed hereto under the provisions of Article 31 (Non-joinder and Subsequent Joinder), or if any tract is eliminated from the unit as provided for in Article 30 (Titles), schedule C shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Supervisor, Director, Commissioner, Commission and Railroad Commissioner to show the new tract participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Commissioner and the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved. In all such revisions, the previously committed tracts shall remain in the same ratio one to the other.

#### ARTICLE 14

##### ALLOCATION OF UNITIZED SUBSTANCES

14.1 Allocation to Tracts. All Unitized Substances produced and saved shall be apportioned and allocated to the several qualified Tracts in accordance with the respective Tract Participations effective hereunder from and after the effective date hereof, as set forth in Exhibit "C"; less, save and except any part of such Unitized Substances used in conformity with good operating practices within the Unit Area for drilling, operating, camp, and other development purposes and for pressure maintenance and other operations hereunder, or lost or destroyed in handling, or delivered to lessors under terms of their respective leases for use on the leased premises within the Unit Area -- as to all of which the parties hereto agree that no royalty, overriding royalty, production payment or other payment to any Royalty Owner shall be payable. The amount of Unitized Substances so allocated to each Tract, and only that amount, regardless of whether it be more or less than the amount of actual production from the well or wells, if any, on such Tract, shall for all intents, uses and purposes, be deemed to have been produced from such Tract.

14.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such Tract to the same extent and in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect. If ownership of the Working Interest and/or Royalty Interest is not uniform throughout any Tract, or if the Working Interest and/or Royalty Interest, or any part thereof, in any Tract are divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such a Tract shall in each such instance, in the absence of a recordable instrument executed by all such owners and furnished to Unit Operator fixing the division of ownership on a uniform basis throughout the Tract, be divided among the parcels or portions in



which there is uniformity of ownership, in proportion to the number of surface acres in each.

14.3 Ownership Prior to Effective Date or Dates. This Agreement shall not affect ownership of oil and gas produced prior to its effective date; and anything herein contained to the contrary notwithstanding (except for the provisions of Article 23) there shall not be any retroactive adjustment for production of oil and/or gas obtained prior to the effective date of this agreement, the effective date of joinder of any Tract or parcel of land, or the effective date of commitment of any interest to this Agreement. No Tract committed to this Agreement and qualified for participation as elsewhere herein provided shall be subsequently excluded from participation because of depletion of Unitized Substances.

14.4 Responsibility to Royalty Owner. If any Working Interest Owner shall receive in kind, dispose of or receive proceeds of sale of any of the Unitized Substances which accrues to the Royalty Interest of any Royalty Owner then in each such instance such Working Interest Owner shall account to such Royalty Owner for the latter's share of such production or proceeds of same and shall hold each other party hereto harmless against all claims, demands and causes of action on the part of such Royalty Owner for or in respect of its share of such production or proceeds of sale of same.

## ARTICLE 15

### DISPOSITION OF UNITIZED SUBSTANCES

15.1 The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each such party entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and/or to sell or dispose of the same as it sees fit. Notwithstanding any other provision hereof, each party shall always have the right of separately disposing of its share of the Unitized Substances produced and saved, and shall execute all division orders or other instruments pertaining to the sale of its share of such production. Each such party shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any such party shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area may sell or otherwise dispose of such production at the then prevailing market price for Unitized Substances of the same kind, grade and quality in which event Unit Operator shall account monthly to such party for the proceeds thereof, provided, however, that the term of any contract made by Unit Operator for the sale of such Unitized Substances shall be no longer than is commensurate with the minimum needs of the industry under the circumstances and in no event longer than one year; and provided further that Unit Operator's right to sell Unitized Substances not taken in kind or sold by the party entitled thereto shall be revocable at the will of such party.

## ARTICLE 16

### ROYALTY SETTLEMENT

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

16.2 All royalties due the United States of America, the State of New Mexico, and the other Royalty Owners hereunder on each Tract shall be computed and paid on the basis of the Unitized Substances allocated to the respective Tracts committed hereto, in lieu of actual production from each such Tract.

16.3 Each Royalty Owner (other than the United States of America and the State of New Mexico) that executes this Agreement, represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area. If any Royalty Interest in a Tract or Tracts should be lost by title failure in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

16.4 If the amount of Unitized Substances accruing to any Royalty Interest or Working Interest in a Tract depends by the terms of the instrument reserving or creating it, on the per well production from such Tract during any period of time, then for the purpose of computing the quantity of Unitized Substances accruing to such Interest during such period of time, there shall be deemed located on such Tract that percentage of the total number of wells completed in the entire Unitized Formation and used or usable at the beginning of such period, either as producing wells or injection wells, which is equal to the Tract Participation of such Tract, and the quantity of Unitized Substances allocated to such Tract, as above provided, shall be deemed to have been produced in equal proportions by the number of wells so deemed located on such Tract; except for leases issued by the United States of America on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the Unit Area were a single consolidated lease.

## ARTICLE 17

### RENTAL SETTLEMENT

17.1 In each instance in which proceeds of royalty production shall be less than the required minimum rental or royalty due on the area including some

portion of the Unit Area, the deficiency shall be made up and paid by the Working Interest Owners of the portion of lease in question. Rental for the lands of the State of New Mexico, subject to this agreement, shall be paid by such Working Interest Owners at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty from lands of the United States of America, subject to this agreement, shall be paid by such Working Interest Owners at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

## ARTICLE 18

### CONSERVATION

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

## ARTICLE 19

### DRAINAGE

19.1 The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the Unitized Formation by wells on lands not subject to this Agreement.

## ARTICLE 20

### LEASES AND CONTRACTS CONFORMED AND EXTENDED

20.1 The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil and/or gas of lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but shall otherwise remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof of their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty or royalty requirements of Federal and State of New Mexico leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement. Without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

- 20.1.2 Drilling, producing or secondary recovery operations performed hereunder upon any qualified Tract of Unitized Land will be accepted and deemed to be performed upon and for the benefit of each and every qualified Tract of the Unit Area, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- 20.1.3 Suspension of drilling or producing operations on any qualified Tract within the Unit Area pursuant to direction or consent of the Secretary, Commissioner, Commission and/or Railroad Commission, or their duly authorized representatives, or other lawful authority having jurisdiction, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every qualified Tract within the Unit Area and no lease shall terminate by reason of such suspension, but every lease shall remain in full force and effect during the period of suspension.
- 20.1.4 Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil and/or gas which might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- 20.1.5 Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- 20.1.6 Any lease other than a Federal or State of New Mexico lease having only a portion of its land committed hereto shall be segregated as to the land subject to this Agreement and the lands not subject to this Agreement, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that so long as Unitized Substances are produced from the Unit Area and a portion is allocated to the lands within such lease included within the Unit Area or so long as the Unit Operator in accordance with the provisions of this Agreement is engaged in secondary recovery operations or drilling or reworking wells for the purpose of improving or maintaining or restoring production of Unitized Substances that portion of the lease which is not committed to this Agreement shall remain in full force and effect.
- 20.1.7 If a Federal lease committed to this Agreement covers lands outside the Unit Area such lease shall be governed by the 4th paragraph of Section 17 (j) of the Mineral Leasing Act as amended by the Act of September 2, 1960 (74 Stat. 781-784).
- 20.1.8 Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the por-

tion not committed and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, (a) if Unitized Substances are discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement, or (b) so long as a portion of Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or (c) if, at the expiration of the full term thereof, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein such lease shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as Unitized Substances are produced in paying quantities from any portion of said lands.

## ARTICLE 21

### COVENANTS RUN WITH THE LAND

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

## ARTICLE 22

### EFFECTIVE DATE AND TERM

22.1 When Agreement Effective. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock A.M. on the first day of the calendar month next following:

22.1.1 The execution or ratification of this Agreement and/or the Unit Operating Agreement by Working Interest Owners owning a combined Voting Interest of all the qualified Tracts within the Unit Area of not less than ninety-five per cent (95%); and the qualification for participation by all Tracts in said Unit Area as provided in Article 13 hereof, and such qualification shall, notwithstanding any

other provision hereof be a condition precedent to this Agreement's becoming effective, and

- 22.1.2 The final approval of this Agreement by the Commissioner, Commission, Railroad Commission and the Secretary of his duly authorized representative, and
- 22.1.3 The filing of at least one counterpart of this Agreement in the records of Lea County, New Mexico, and the records of Andrews County, Texas, by Unit Operator; provided that the above filings must be made within thirty (30) days after the final approval as provided above in this Article, and
- 22.1.4 The delivery by Unit Operator to the Supervisor and the Commissioner of a certificate to the effect that this Agreement will become effective according to its terms and stating the effective date, and the filing of such certificate in the records of Lea County, New Mexico, and Andrews County, Texas.

22.2 Expiration Before it Becomes Effective. This Agreement shall ipso facto expire on July 1, 1964 (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Voting Interest in qualified Tracts within the Unit Area of at least ninety per cent (90%) and who have decided to extend said expiration date for a period not to exceed six (6) months. If said expiration date is so extended and 22.1.1, 22.1.2, 22.1.3, and 22.1.4 are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

22.3 Term. This Agreement shall continue in force and effect from and after the effective date so long as Unitized Substances are produced from the Unit Area in paying quantities or drilling, reworking or other operations are conducted by Working Interest Owners for the purpose of obtaining or restoring production of Unitized Substances from the Unit Area without cessation in production or in such operations of more than ninety (90) consecutive days at any one time; provided, however, that if production of Unitized Substances or the conduct of drilling, reworking or other operations for the production of Unitized Substances is prevented by force majeure at any time or times this Agreement shall not terminate by reason of the cessation of such production or such operations provided that such production or such operations are resumed within sixty (60) days after such force majeure has ceased to operate and provided further, (1) this agreement shall terminate automatically as of the first day of the month after the owners of 85 per cent of the voting interests shall have determined that the pilot flood required under Article 11.4 is unsuccessful, and all principals are notified promptly, or (2) if the owners of 85 per cent of the voting interests determine that the unit agreement should be terminated because it can no longer be operated profitably, feasibly, or in the interest of conservation, this agreement may be terminated with approval of the Commissioner and the Director, effective as of the first day of the month after such approval by the Director.

22.4 Effect of Termination. On termination of this Agreement the further development and operation of the Unitized Formation under this Agreement

shall be abandoned and the unitization effected by this Agreement shall be at an end and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into, provided, however, that Royalty Owners, to the extent of their authority, hereby grant Working Interest Owners a period of twelve (12) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with the operations hereunder.

22.5 Certificate of Termination. Upon termination of this Agreement in accordance with this Article, Unit Operator shall execute and file for record in Lea County, New Mexico, and Andrews County, Texas, certificate evidencing such termination provided, however, that such certificate shall be filed only after the approval of Working Interest Owners as above provided.

## ARTICLE 23

### PRODUCTION AS OF THE EFFECTIVE DATE

23.1 Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

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

## ARTICLE 24

### RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

24.1 All production and disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. As to lands within the State of New Mexico, the Director is hereby vested with authority from time to time, in his discretion to alter or modify the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement; provided that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of specific written approval thereof by the Commissioner, and as to any lands of the State of New Mexico or privately owned lands in said State subject to this Agreement, as to the quantity and rate of production in the absence of specific written approval thereof by the

Commission. As to lands within the State of Texas, the Director is hereby vested with authority similar to that above vested in him as to lands in New Mexico, provided that all alterations or modifications of the kind above mentioned, shall be within limits made or fixed by the Railroad Commission, and provided further that no such alteration or modification shall be effective in the absence of specific written approval thereof by the Railroad Commission -- it being agreed that the making of Field Rules and the matter of fixing the amount of production of oil or gas as to lands in Texas are the province of the Railroad Commission. And provided further that the authority vested above in the Director in this Article 24 is limited to alteration or modification in the public interest -- the purpose thereof and the public interest to be served to be stated in the order of alteration or modification.

Powers in this Article 24 vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

#### ARTICLE 25

##### APPEARANCES

25.1 Unit Operator shall, after notice to the other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department, the Commissioner, the Commission and the Railroad Commission, and to appeal from orders issued under regulations of said Department, Commissioner, Commission or Railroad Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the said Department, Commissioner, Commission or Railroad Commission or any other legally constituted authority, provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceedings.

#### ARTICLE 26

##### NOTICES

26.1 Except as otherwise specified herein, each notice given pursuant to this Agreement shall be given in writing as follows: (a) By registered or certified mail or by telegraph with postage or charges prepaid, properly addressed to each party to whom given at such party's address set forth below its signature to this Agreement or its ratification or consent hereto; or (b) By personal delivery to the party to whom the notice is to be given, provided that if delivered to a corporate party, the notice shall be delivered personally to an executive officer of such party, subject to the provisions of (c) below; or (c) In case of each Working Interest Owner who shall designate a representative and/or alternate representative as specified in Section 5.2 of the Unit Operating Agreement, the notice may be given either by personal delivery to such a representative or alternate representative or by mailing or telegraphing the same (with postage or charges prepaid) to such representative or alternate representative in the manner above specified, properly addressed to such representative or alternate representative at his address specified in the designation made by the Working Interest Owner. Each notice given by mail or telegraph as above provided shall be deemed given 48 hours after such notice is deposited in the United States mail or 24 hours after it is filed with an operating telegraph company for immediate transmission by telegraph. Any party hereto may change the address to which notices for it may be sent by appropriate



written notice to Unit Operator, provided that notice of such change of address of Unit Operator shall be given by the latter to all other parties hereto. Notice given in the manner above specified, to the husband of any married woman who is a party to this Agreement, shall also constitute notice to her.

#### ARTICLE 27

##### NO WAIVER OF CERTAIN RIGHTS

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

#### ARTICLE 28

##### NON-LIABILITY - FORCE MAJEURE

28.1 Unit Operator shall not be liable to any other party hereto for anything wrongfully or negligently done or omitted to be done in the conduct of operations hereunder except in case of bad faith. The obligations, other than the obligation to make money payments herein provided for, of Unit Operator or any Working Interest Owner shall be suspended to the extent that and so long as performance thereof is prevented by fire, explosion, action of the elements, unavoidable accidents, strikes or other differences with workmen, acts of civil or military authorities, act of the public enemy, war, restrictions or restraints imposed by law or regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, uncontrollable delays in transportation, inability to obtain materials or equipment in open market, or any other cause reasonably beyond control by such party, whether or not similar to any cause above enumerated; and such party shall not be liable to any other party for losses caused by any of said matters or things. The affected party shall give notice thereof to the other parties hereto as promptly as reasonably possible.

#### ARTICLE 29

##### NON-DISCRIMINATION

29.1 In the performance of work under this Agreement the Operator agrees to comply with the non-discrimination provisions of Section 301 (1) (7) inclusive of Executive Order 10925, as amended, (28 F.R. 6485) which are hereby included by reference in this Agreement.

#### ARTICLE 30

##### TITLES

30.1 Exclusion of Qualified Tracts. Whenever it is determined by Working Interest Owners after the effective date that through error or because of failure in title of a party hereto a qualified Tract at or after the effective date failed to meet the requirements specified in Article 13 such Tract shall be excluded from Participation as of 7:00 o'clock A.M. on the first day of the

calendar month next succeeding the month in which such determination is made, provided, however, that if such Tract meets the requirements specified in Article 13 before the exclusion thereof becomes effective it shall not be excluded.

30.2 Revision of Exhibits. If a Tract is excluded pursuant to 30.1, Unit Operator shall revise Exhibit "C" accordingly recomputing the Tract Participation of the remaining qualified Tracts such revised Exhibit to be effective as of the time at which the exclusion of such Tract becomes effective. In any such computation the qualified Tract Participation of the remaining qualified Tracts shall remain in the same ratio one to another.

30.3 Retention of Tract. If there is a failure in the title of any party hereto to a Royalty Interest or a Working Interest in a Tract but such Tract is not excluded as above provided, the party whose title has failed shall not be entitled to any benefits under this Agreement in respect of the interest affected by the title failure.

30.4 Production Where Title Is In Dispute. If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the discretion of Working Interest Owners shall either:

30.4.1 Require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

30.4.2 Withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof without liability for interest until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico and the Supervisor of the United States Geological Survey, to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

## ARTICLE 31

### NON-JOINDER AND SUBSEQUENT JOINDER

31.1 Non-Qualified and Non-Committed Tracts. Any tract not qualified

as of the effective date of this agreement or any tract brought into this unit pursuant to Article 5 may be committed to this agreement by meeting such requirements as may be voted by ninety per cent (90%) of the voting interest, by qualifying pursuant to Article 13, and by effecting a joinder pursuant to Article 31, if needed.

31.2 Prior to Six (6) Months After Effective Date. Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this Agreement to the Director, the Commissioner, Commission and Railroad Commission for final approval, may (subject to provisions of Article 14.3) thereafter be committed hereto upon compliance with the applicable provisions of Article 13 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Article 12 by the owner or owners thereof subscribing or consenting in writing to this Agreement; provided that the Tract embracing such an interest must have been qualified for participation prior to the effective date hereof as required by Articles 13 and 22 hereof.

31.3 Subsequent to Six (6) Months After Effective Date. It is understood and agreed, however, that subsequent to six (6) months after the effective date hereof, the right of subsequent joinder as provided in this section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having ninety per cent (90%) of the combined Voting Interest of all the Working Interest Owners subject to the approval of the Director and Commissioner. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner.

31.4 Effective Date of Joinder. Except as may otherwise herein be provided, subsequent joinder to this Agreement shall be effective at 7:00 o'clock A.M. as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish commitment of the interest in question to this Agreement.

31.5 Acquisition of Uncommitted Interests. In the event at any time after the effective date hereof any party bound by this Agreement acquires an uncommitted interest in any qualified Tract such interest upon being so acquired shall be, upon approval of Working Interest Owners, subject to this Agreement effective as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such acquisition and where such interest acquired is a Working Interest, such interest shall also be subject to the Unit Operating Agreement. Notice of such acquisition shall be filed with the Supervisor not more than fifteen (15) days following such effective date.

## ARTICLE 32

### COUNTERPARTS AND RATIFICATIONS

32.1 Counterparts. This Agreement may be executed in any number of counterparts and all executed counterparts hereof shall be deemed to constitute

a single instrument binding upon every party executing any counterpart hereof, with the same force and effect as if all parties who execute counterparts hereof had joined in the execution of the same counterpart hereof.

32.2 Ratification. This Agreement may be ratified by a separate instrument in writing, and each party who executes any such instrument shall be deemed a party to this Agreement with the same force and effect as if such party had executed a counterpart hereof.

32.3 Joinder by Working Interest Owner in Unit Operating Agreement. Execution or ratification of this Agreement by a Working Interest Owner shall constitute ratification of and joinder in the Unit Operating Agreement by such Working Interest Owner with like effect as if such Working Interest Owner had executed the Unit Operating Agreement.

### ARTICLE 33

#### UNLEASED INTERESTS

33.1 Where a party to this Agreement commits hereto an oil and gas interest that is unleased, then for all purposes of this Agreement and the Unit Operating Agreement, such party shall be considered a "Working Interest Owner" as herein defined, as to 7/8ths thereof and a "Royalty Owner" as herein defined, as to 1/8th thereof; and said 7/8ths shall be considered to be a "Working Interest" as herein defined; and said 1/8th shall be considered a "Royalty Interest" as herein defined. And for all purposes aforesaid, such Working Interest shall be treated as a lease remaining in force as long as this Unit Agreement remains in force.

### ARTICLE 34

#### INJECTION RIGHTS; EASEMENTS; WATER

34.1 Royalty Owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts the Working Interest Owners deem expedient, including the right to place and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells for said purposes in accordance with an approved plan of operation as provided in Section 11.1. The parties hereto to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the area embracing the Unit Area as may be reasonably necessary for the operation and development of the Unitized Formation, including a site for a water, gas injection, processing or other plant, and camp site. Working Interest Owners shall have free use of water from the Unit Area for operations hereunder except water from Royalty Owners' wells, private lakes, ponds, or irrigation ditches.

### ARTICLE 35

#### OIL AND GAS INTEREST NOT TRANSFERRED

35.1 Notwithstanding any other provision of this Agreement each of the parties hereto reserves its title to its mineral interests in the respective Tracts in the Unit Area and the Unitized Substances credited to it hereunder and nothing

contained in this Agreement shall be construed to transfer or assign from one party to another or others, individually or collectively, any mineral interest in the separately owned Tracts, other than the right to share in the allocation of Unitized Substances produced from the Unit Area as herein specified and to use and operate the Unit Area to the extent set out in this Agreement. The term "mineral interest" as used in this Article 35 shall include Working Interests and Royalty Interests.

## ARTICLE 36

### REPORTS

36.1 Unit Operator shall make such reports to governmental authorities as may be required by applicable laws or by the regulations or orders of such authorities.

## ARTICLE 37

### TAXES

37.1 Each party hereto shall for its own account render and be responsible for the payment of its share of any taxes levied against or measured by the amount or value of Unitized Substances produced from the Unit Area.

Nothing herein contained shall impair the right of any Working Interest Owner or Royalty Owner to contest the validity of any levy, assessment, or imposition of any tax by any governmental authority including without limitation production taxes, a tax upon or measured by production or an ad valorem tax.

## ARTICLE 38

### INTERNAL REVENUE PROVISIONS

38.1 It is agreed that it is not the purpose or intention of this Agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership relation. The parties hereto, and each of them, hereby agree that this Agreement shall not constitute a partnership as defined in the Internal Revenue Code of 1954, and specifically elect to be excluded from all of Sub-Chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or similar provision of any applicable state income tax law. Unit Operator is hereby authorized and directed to execute and file on behalf of each Working Interest Owner such further evidence of such election as may be required to make such election under the laws and regulations promulgated thereunder.

## ARTICLE 39

### VARIABLE INTERESTS

39.1 In case of any change in amounts of interest in the Unitized Formation or Unitized Substances accruing to or owned by any party or parties which results from any variable or sliding scale royalty provided for in any lease now or hereafter becoming subject to this Agreement, variable overriding royalty, liquidation of any production payment, or other kind of variable interest, or other

cause, each party so affected shall promptly advise Unit Operator thereof. Every renewal or exchange lease issued as a renewal of or exchange of any Federal lease covering any part of the Unit Area shall be subject to the terms and provisions of this Agreement in the same manner and to the same extent as the lease so renewed or exchanged.

39.2 Notwithstanding any other provisions of this Agreement or of the Unit Operating Agreement, it is agreed that there shall be no obligation on the part of Unit Operator to ascertain or determine when any production payment is satisfied or paid out, or when there is any change in allocation of Unitized Substances to any party hereto on account of any variable royalty, overriding royalty, or other variable interest. It shall be the duty and responsibility of the affected Working Interest Owners and Royalty Owners in all such instances to take such action as may be proper or necessary to effectuate appropriate changes in the allocation of Unitized Substances and proceeds of sale of same, including without limitation the notification of pipeline companies and purchasers of production and the execution of transfer orders, division orders and other documents which may be required.

#### ARTICLE 40

##### CONFLICT OF SUPERVISION

40.1 Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and/or proper representatives of the States of New Mexico and/or Texas in and about any matters or things concerning which it is required herein that such concurrence be obtained.

#### ARTICLE 41

##### LAWS AND REGULATIONS

41.1 Effect on Agreement. This Agreement and operations hereunder shall be subject to the conservation laws of the States of New Mexico and Texas, to the rules, regulations and orders of the Commission and the Railroad Commission and to all other applicable laws and rules, regulations and orders of governmental authority whether Federal, State or local. Unit Operator and Working Interest Owners shall be entitled to assume that every such law, rule, regulation or order is valid and enforceable unless and until the contrary is established by final judgment of a court of competent jurisdiction. It is not the intent of this Agreement to limit, restrict or prorate the production of Unitized Substances, it being recognized that such powers are to be exercised exclusively by governmental authority.

#### ARTICLE 42

##### RELATIONSHIP OF PARTIES

42.1 No Partnership Created. This Agreement is not intended to create,

and nothing contained herein shall be construed as creating, an association or trust or as imposing a partnership duty, obligation or liability, with regard to any one or more of the parties hereto, it being intended that the duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, each party hereto being individually responsible for the obligations herein assumed by such party.

42.2 No Sharing of Market. Nothing in this Agreement shall be construed as providing directly or indirectly for any cooperative refining or joint sale or cooperative marketing of Unitized Substances.

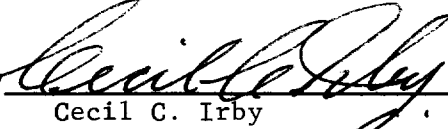
42.3 Royalty Owners Free of Costs. Nothing contained in this Agreement shall be construed as imposing upon any Royalty Owner any obligation to pay any of the expenses incurred in the development or operation of the Unitized Formation except to the extent, if any, that such Royalty Owner is obligated to pay the same by the terms of an agreement other than this Agreement.

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

SOHIO PETROLEUM COMPANY

DATE: September 9, 1963

By

  
Cecil C. Irby

Agent and Attorney in Fact

970 First National Office Building  
Oklahoma City, Oklahoma 73102

STATE OF OKLAHOMA     )  
                                  )  
COUNTY OF OKLAHOMA    )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared CECIL C. IRBY known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said SOHIO PETROLEUM COMPANY, an Ohio Corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by CECIL C. IRBY, Agent and Attorney in Fact of SOHIO PETROLEUM COMPANY, an Ohio Corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 9th day of SEPTEMBER, A.D. 1963.

My Commission Expires:

September 6, 1965

A handwritten signature in cursive script, appearing to read "Wanda L. Sherod", written over a horizontal line.

Notary Public in and for Oklahoma County,  
Oklahoma.



RATIFICATION AND JOINDER TO THE  
LITTMAN SAN ANDRES UNIT AGREEMENT, LEA COUNTY,  
STATE OF NEW MEXICO, AND ANDREWS COUNTY,  
STATE OF TEXAS, DATED SEPTEMBER 9, 1963

For the consideration stated in the above described Unit Agreement, each of the undersigned hereby ratifies, confirms and joins in the execution of said Unit Agreement which is hereby incorporated herein and made a part hereof, to the same extent and effect as if the undersigned had executed the original of said Unit Agreement.

The undersigned acknowledges receipt of a copy of said Unit Agreement and acknowledges that no representations not incorporated herein or in said Unit Agreement have been made to the undersigned and that this instrument has been signed and delivered unconditionally.

DATE \_\_\_\_\_

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

DATE \_\_\_\_\_

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

ATTEST:  
\_\_\_\_\_

By \_\_\_\_\_  
President  
ADDRESS \_\_\_\_\_  
\_\_\_\_\_

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior under the Act approved February 25, 1920, 41 Stat. 437, 30 U.S.C. Secs. 181 et seq., as amended by the Act of August 8, 1946, 60 Stat. 950, and delegated to the Director of the Geological Survey, pursuant to Departmental Order No. 2365 of October 8, 1947, 43 CFR Sec. 4.618, 12 FR 6784, I do hereby:

- A. Approve the attached secondary recovery Unit Agreement for the development and operation of the Littman San Andres Unit Area, in the Counties of Lea and Andrews in the States of New Mexico and Texas, respectively.
- B. Certify and determine that the unit plan for secondary recovery contemplated in the attached Agreement is necessary and advisable in the public interest and is for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of the Agreement.

Dated \_\_\_\_\_.

Contract No.

---

Director  
United States Geological Survey

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ and \_\_\_\_\_, his wife, both known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they each executed the same for the purposes and consideration therein expressed, and the said \_\_\_\_\_, wife of the said \_\_\_\_\_, having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said \_\_\_\_\_, acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ and \_\_\_\_\_, his wife.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said \_\_\_\_\_, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_.

R 38 E

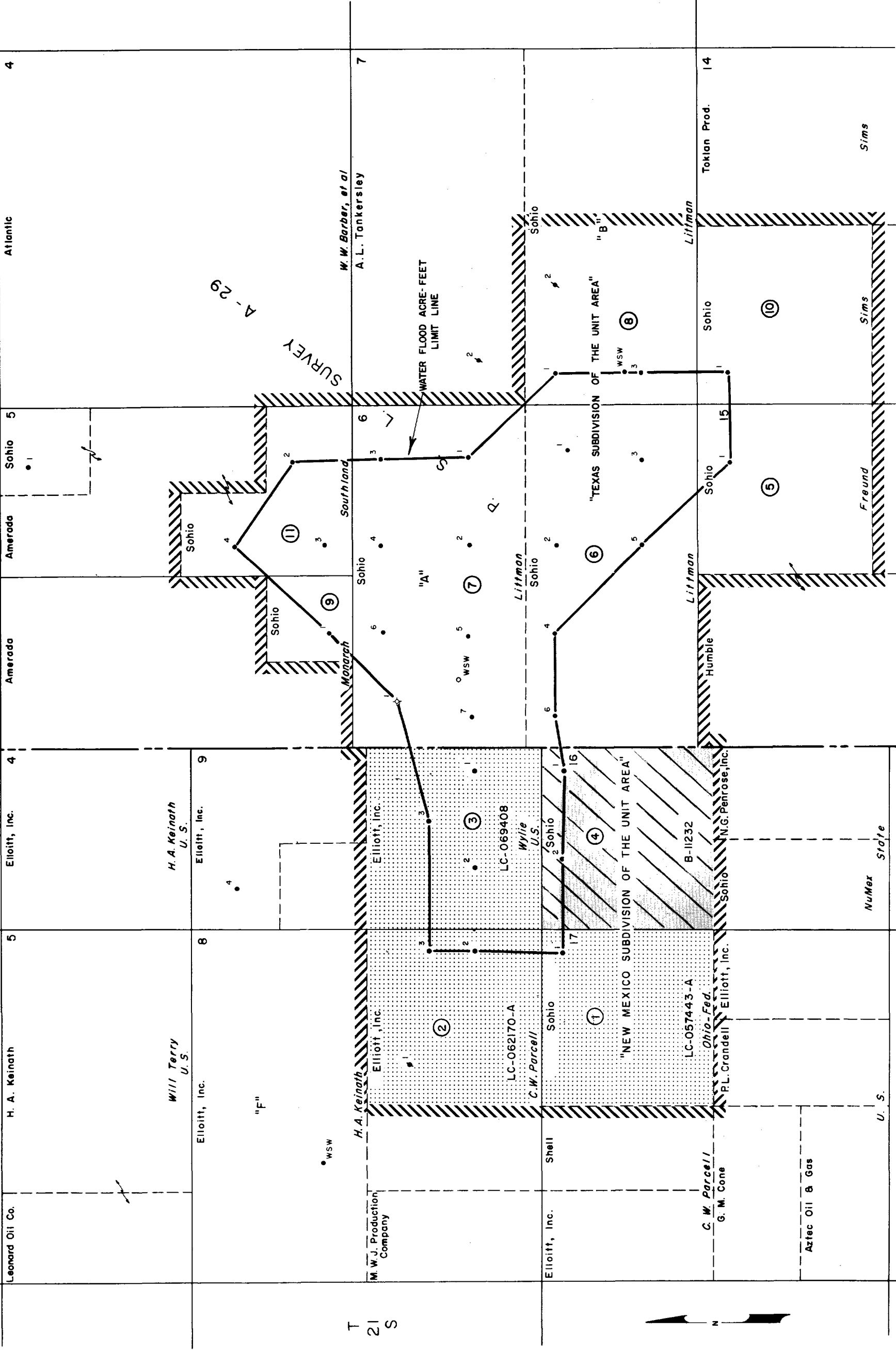


Exhibit "A"

LITTMAN (SAN ANDRES) UNIT

LITTMAN (SAN ANDRES) FIELD

ANDREWS COUNTY, TEXAS  
AND  
LEA COUNTY, NEW MEXICO

Legend:

- PRODUCING OIL WELL
- ABANDONED OIL WELL
- DRY HOLE
- WATER SUPPLY WELL
- WATER SUPPLY WELL LOCATION
- UNIT AREA BOUNDARY
- WATERFLOOD ACRE-FOOT LIMIT LINE
- FEE LAND
- FEDERAL LAND
- STATE LAND
- TRACT NUMBER



EVERETT COMPANY  
REGISTRATION ENGINEERS

E X H I B I T "B"  
LITTMAN SAN ANDRES UNIT AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest
UNITED STATES OF AMERICA LEASES									
NEW MEXICO SUBDIVISION									
1	Ohio-Federal NE/4 Sec. 17, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4750 feet.	160.00	1	LC-057443-A	12.50000%	Ohio Oil Co.	13.75000%	- 0 -	Brosoco Corporation John B. Rich Sohio Petroleum Company •1979167 •0104166 •7916667
2	Parcel 11-Federal SE/4 Sec. 8, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	160.00	2	LC-062170-A	12.50000%	Elliott, Inc.	03.33300%	- 0 -	Elliott, Inc. •1.0000000
3	Wyile-Federal SW/4 Sec. 9, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	170.69	3	LC-069408	12.50000%	Elliott, Inc.	02.38125%	00.11875%	Elliott, Inc. •1.0000000
Federal Tracts		490.69 Acres							
STATE OF NEW MEXICO LEASES									
4	Numex NW/4 Sec. 16, T-21-S R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4750 feet.	170.69	2	B-11232	12.50000%	Humble Oil & Refining Company	06.25000%	- 0 -	Brosoco Corporation John B. Rich Sohio Petroleum Company •2770834 •0145833 •7083333
State of New Mexico Tracts		170.69 Acres.							

E X H I B I T "B"  
(Continued)

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest
<u>FEES LEASES</u>									
<u>TEXAS SUBDIVISION</u>									
5	Freund NE/4 Sec. 15, Block A-29, PSL, Andrews County, Texas, down to a depth of 5000 feet.	160.00	1	None	13.2812%	Humble Oil & Refining Company, et al	04.77208%	- 0 -	Brosco Corporation J. G. Catlett Co. Kirby Production Company John B. Rich Sohio Petroleum Company -2461179 .0405401 .0712149 .0129536 .6291735
6	Littman S/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	320.00	6	None	14.84374%	Neville G. Penrose	03.51562%	06.09377%	Martha Jane Anthony Brosco Corporation Delbi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company .1875000 .0131250 .0131250 .0131250 .0093750 .5000000
7	Littman "A" N/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	320.00	7	None	16.79690% 14.84374% 16.0156%***	Phillips Petroleum Company, et al	00.78125% 00.39063% 00.78125%***	- 0 -	Brosco Corporation Delbi Taylor Oil Corporation John B. Rich Shell Oil Company Sohio Petroleum Company .1187500 .0625000 .0062500 .5000000 .3125000
**When average Daily Production per well is more than 35 barrels. **When average Daily Production per well is less than 35 barrels. ***When average Daily Production per well is exactly 35 barrels.									
8	Littman "B" SW/4 Sec. 7, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	160.00	2	None	13.2812%	Phillips Petroleum Company, et al	05.07812%	- 0 -	Martha Jane Anthony Brosco Corporation Delbi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company .0156250 .1781250 .0625000 .1875000 .0156250 .0156250 .0156250 .0093750 .5000000

E X H I B I T "B"  
(Continued)

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest	
FEE LEASES (Continued)										
9	Monarch E. 40 Ac. of S. 71-25 Ac. of SW/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	40.00	1	None	12.84179%	Phillips Petroleum Company, et al	08.92652%	01.63302%	Brosoco Corporation C. S. Longcope John B. Rich Sohio Petroleum Company	.2761673 -0033058 -0145351 -7059918
10	Sims NW/4 Sec. 14, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	160.00	1	None	12.50000%	Humble Oil & Refining Company	06.25000%	- 0 -	Martha Jane Anthony Brosoco Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company	-0156250 -1979167 -1875000 -0156250 -0156250 -0156250 -0104167 -5416666
11	Southland S/2 SE/4 and W. 40 Ac. of N. 71-25 Ac. of SE/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	120.00	3	None	12.89060% 12.69529% 12.69529%***	Phillips Petroleum Company, et al	05.61529% 01.99110% 05.61529%***	01.63302% 01.63302% 01.63302%***	Brosoco Corporation J. G. Catlett Co. Cities Service Oil Company Kirby Production Company C. S. Longcope John B. Rich Sohio Petroleum Company	-1682291 -0304869 -3333333 -0217629 -0033058 -0088543 -4340277
* When daily average production per well is more than 35 barrels. ** When daily average production per well is less than 35 barrels. *** When daily average production per well is exactly 35 barrels.										
Fee Tracts		1,280.00 Acres.								
Total Acreage in Unit		1,941.38 Acres.								



E X H I B I T "C"  
 LITTMAN SAN ANDRES UNIT AGREEMENT  
 LITTMAN SAN ANDRES UNIT  
 LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

<u>Tract No.</u>	<u>Lease Name and Description</u>	<u>Number of Acres</u>	<u>Lease and/or Assignment Number</u>	<u>Tract Participation</u>
<u>UNITED STATES OF AMERICA LEASES</u>		<u>NEW MEXICO SUBDIVISION</u>		
1	Ohio-Federal NE/4 Sec. 17, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4,750 feet.	160.00	LC-057443-A	03.60701%
2	Parcell-Federal SE/4 Sec. 8, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	160.00	LC-062170-A	02.32066%
3	Wylie-Federal SW/4 Sec. 9, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	170.69	LC-069408	14.38601%
<u>Federal Tracts</u>		<u>490.69 Acres.</u>		
<u>STATE OF NEW MEXICO LEASES</u>				
4	Numex NW/4, Sec. 16, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4,750 feet.	170.69 <i>661.38</i>	B-11232	06.66266%
<u>State of New Mexico Tracts</u>		<u>170.69 Acres.</u>		
<u>FEE LEASES</u>		<u>TEXAS SUBDIVISION</u>		
5	Freund NE/4 Sec. 15, Block A-29, PSL, Andrews County, Texas, Down to a depth of 5,000 feet.	160.00	None	00.82290%
6	Littman S/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	320.00	None	20.16509%

E X H I B I T "C"  
(Continued)

<u>Tract No.</u>	<u>Lease Name and Description</u>	<u>Number of Acres</u>	<u>Lease and/or Assignment Number</u>	<u>Tract Participation</u>
<u>FEE LEASES</u> (Continued)				
7	Littman "A" N/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	320.00	None	35.67109%
8	Littman "B" SW/4 Sec. 7, Block A-29, PSL, Andrews County, Texas, down to a depth of 4,750 feet.	160.00	None	07.84198%
9	Monarch E. 40 Ac. of S. 71.25 Acs. of SW/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4,750 feet.	40.00	None	01.46833%
10	Sims NW/4 Sec. 14, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	160.00	None	02.17480%
11	Southland S/2 SE/4 and W. 40 Ac. of N. 71.25 Ac. of SE/4, Sec. 5, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	120.00	None	04.87947%
<u>Fee Tracts</u>		<u>1,280.00 Acres.</u>		
<u>Total Acreage in Unit</u>		<u>1,941.38 Acres.</u>		

---

**UNIT AGREEMENT**

**LITTMAN SAN ANDRES UNIT**

**LEA COUNTY, NEW MEXICO**

**ANDREWS COUNTY, TEXAS**

---

INDEX

UNIT AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO AND ANDREWS COUNTY, TEXAS

	<u>Page</u>
Opening	1
Whereas's	1
Article 1 - Enabling Act and Regulations	2
Article 2 - Definitions	2
Article 3 - Exhibits	4
3.1 Exhibits Attached	4
3.2 Reference to Exhibits	5
3.3 Exhibits Considered Correct	5
3.4 Revision of Exhibits	5
3.5 Recording of Revised Exhibits	5
Article 4 - Unit Area and Unitized Substances	5
Article 5 - Enlargement of Unit Area	5
5.1 Enlargement	5
5.2 The Effective Date of Enlargement	6
Article 6 - Unit Operator	6
Article 7 - Resignation or Removal of Unit Operator	6
Article 8 - Successor Unit Operator	7
Article 9 - Accounting Provisions and Unit Operating Agreement	8
Article 10- Rights and Obligations of Unit Operator	8
Article 11- Plan of Operations	8
Article 12- Tract Participation	9
Article 13- Tracts Qualified	10
13.1 Qualification of Tracts	10
13.2 Revision of Exhibit "C"	10

## INDEX

Page 2

	<u>Page</u>
Article 14 - Allocation of Unitized Substances	11
14.1 Allocation to Tracts	11
14.2 Distribution Within Tracts	11
14.3 Ownership Prior to Effective Date or Dates	12
14.4 Responsibility to Royalty Owner	12
Article 15 - Disposition of Unitized Substances	12
Article 16 - Royalty Settlement	13
Article 17 - Rental Settlement	13
Article 18 - Conservation	14
Article 19 - Drainage	14
Article 20 - Leases and Contracts Conformed and Extended	14
Article 21 - Covenants Run With the Land	16
Article 22 - Effective Date and Term	16
22.1 When Agreement Effective	16
22.2 Expiration Before It Becomes Effective	17
22.3 Term	17
22.4 Effect of Termination	17
22.5 Certificate of Termination	18
Article 23 - Production As Of the Effective Date	18
Article 24 - Rate of Prospecting, Development and Production	18
Article 25 - Appearances	19
Article 26 - Notices	19
Article 27 - No Waiver of Certain Rights	20
Article 28 - Non-Liability - Force Majeure	20
Article 29 - Non-Discrimination	20
Article 30 - Titles	20

## INDEX

Page 3

	<u>Page</u>
30.1 Exclusion of Qualified Tract	20
30.2 Revision of Exhibits	21
30.3 Retention of Tract	21
30.4 Production Where Title Is in Dispute	21
Article 31 - Non-Joinder and Subsequent Joinder	21
31.1 Non-Qualified and Non-Committed Tracts	21
31.2 Prior to Six (6) Months After Effective Date	22
31.3 Subsequent to Six (6) Months After Effective Date	22
31.4 Effective Date of Joinder	22
31.5 Acquisition of Uncommitted Interests	22
Article 32 - Counterparts and Ratifications	22
32.1 Counterparts	22
32.2 Ratification	23
32.3 Joinder by Working Interest Owner in Unit Operating Agreement	23
Article 33 - Unleased Interests	23
Article 34 - Injection Rights; Easements; Water	23
Article 35 - Oil and Gas Interest Not Transferred	23
Article 36 - Reports	24
Article 37 - Taxes	24
Article 38 - Internal Revenue Provisions	24
Article 39 - Variable Interests	24
Article 40 - Conflict of Supervision	25
Article 41 - Laws and Regulations	25
41.1 Effect on Agreement	25

INDEX

Page 4

Page

Article 42 - Relationship of Parties	25
42.1 No Partnership Created	25
42.2 No Sharing of Market	26
42.3 Royalty Owners Free of Costs	26

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO AND ANDREWS COUNTY, TEXAS

No. \_\_\_\_\_

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

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of Working, Royalty or other oil or gas interests in the Unit Area, as hereinafter defined, which has been reasonably developed for production of oil and/or gas from the San Andres formation; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chap. 88, Laws of 1943 as amended by Section 1, Chapter 176, Laws of 1961) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and is authorized by an Act of the Legislature (Section 3, Chap. 88, Laws of 1943, as amended by Section 1, Chap. 162, Laws of 1951) to amend with the approval of the lessee, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such unitized development and operation of State lands; and

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

WHEREAS, in conformity with the provisions of Article 6008b of Title 102, Vernon's Annotated Civil Statutes of the State of Texas, it is necessary to establish the Littman San Andres Unit in order to effect secondary recovery operations for oil and gas from the San Andres formation, which operations are designed to conserve oil and gas, to prevent waste and to increase the ultimate recovery of oil therefrom while protecting the rights of all owners of interests in the Littman San Andres Field; and



WHEREAS, the parties hereto hold sufficient interests in the Littman San Andres Unit covering the land hereinafter described to give reasonably effective control of operations therein;

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

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

#### ARTICLE 1

##### ENABLING ACT AND REGULATIONS

1.1 The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the States, in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

#### ARTICLE 2

##### DEFINITIONS

As used in this agreement:

2.1 "Commission" means the Oil Conservation Commission of the State of New Mexico.

2.2 "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

2.3 "Department" means the Department of the Interior of the United States of America.

2.4 "Director" means the Director of the United States Geological Survey.

2.5 "Effective Date" means the time when this agreement becomes effective, as hereinafter provided.

2.6 "Paying Quantities" means production of Unitized Substances in quantities sufficient to pay the costs of producing same from wells within the Unit Area with a reasonable profit.

2.7 "Railroad Commission" means the Railroad Commission of Texas.

2.8 "Royalty Interest" or "Royalty" means an interest in a tract, other than Working Interest, which entitles the owner thereof to share in the Unitized Substances produced from such tract, or in the proceeds or value thereof.

2.9 "Royalty Owner" means the owner of a Royalty Interest.

2.10 "Secretary" means the Secretary of the Interior of the United States of America or any person duly authorized to exercise the powers vested in that office.

2.11 "Supervisor" means the Oil and Gas Supervisor of the United States Geological Survey having jurisdiction for the region in which the Unitized Land is situated.

2.12 "Tract" means a parcel of land described and given a Tract number in Exhibit "B".

2.13 "Tract Participation" means that percentage of Unitized Substances produced from the Unitized Formation which is allocated to a Tract under this agreement.

2.14 "Unit Area" means the land described by Tracts in Exhibit "B" and shown in outline on Exhibit "A", containing as shown 1941.38 acres, more or less. The portion thereof situated in New Mexico and Texas will sometimes be referred to herein as the "New Mexico Subdivision of Unit Area" and the "Texas Subdivision of Unit Area".

2.15 "Unit Manager" means the person or corporation appointed by Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Articles 7 and 8 hereof.

2.16 "Unit Operating Agreement" means the agreement entitled "Unit Operating Agreement, Littman San Andres Unit, Lea County, New Mexico and Andrews County, Texas" bearing the same date as this Agreement and entered into by the Working Interest Owners who are parties to this agreement, and includes any amendments thereto.

2.17 "Unit Operator" means, at any time, the person, firm, or corporation then designated and acting as such in accordance with the Unit Operating Agreement.

2.18 "Unitized Formation" means that subsurface portion of the Unit Area which is subject to this Agreement and is commonly known as the San Andres formation of the Guadalupe Series, a part of the Permian system, which is produced from the subsurface depths of 4316 feet to 4354 feet in the Neville G. Penrose, Inc., #1 Lydia Littman well located in the NE/4 SE/4 of Sec. 6, Block A-29, PSL Survey, Andrews County, Texas, plus an additional 150 feet below the latter depth in said well.

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

2.20 "Usable Well" means a well which has been drilled within the Unit Area to the depth of the Unitized Formation and has casing in the hole in condition for use either as a producing well or an injection well, and on which well there has been filed with the Commission or with the Railroad Commission, on or before the effective date of this Agreement, a well record and completion report (Form C-105 in New Mexico and Form 2, Texas Railroad Commission) and/or Request for Allowable (Form C-104 in New Mexico and Form 3, Texas Railroad Commission), and which well has produced some oil from the Unitized Formation and has had an allowable granted for it by the Commission or by the Railroad Commission.

2.21 "Voting Interest" means the voting power possessed by a Working Interest Owner as defined in the Unit Operating Agreement.

2.22 "Waterflood Acre-Feet" means the volume of net pay (as determined from sample logs and other available data) of Unitized Formation contained within the Waterflood Acre-Feet limit line shown on the attached Exhibit "A".

2.23 "Working Interest" means an interest in a Tract by virtue of a lease, operating agreement, fee title, or otherwise under which the owner of such interest is vested with the right to explore for, develop and produce such substances and which is chargeable with and obligated to pay or bear in cash or out of production or otherwise all or a portion of the cost of drilling, producing and other operations for the production of Unitized Substances from such Tract, in the absence of unitization. The right delegated to the Unit Operator as such by the Unit Operating Agreement is not to be regarded as a Working Interest.

2.24 " Working Interest Owner" means the owner of a Working Interest.

### ARTICLE 3

#### EXHIBITS

3.1 Exhibits Attached. Attached hereto are the following exhibits which constitute a part of this agreement:

Exhibit "A", which is a map showing in addition to the boundary of the Unit Area the boundaries and identity of Tracts and leases within said Unit Area to the extent known by the Unit Operator.

Exhibit "B", which is a schedule showing to the extent known to the Unit Operator a description of each Tract, the leases thereon, and showing its Tract number and the percentage and kind of ownership.

Exhibit "C", which is a schedule of the Tracts within the Unit Area which are reasonably proved to be productive of Unitized

Substances and for each tract is shown the description, the leases thereon, the Tract number, and Tract Participation.

3.2 Reference to Exhibits. Reference in this agreement to exhibits shall mean the exhibits attached hereto except that from and after the time at which a revision to an exhibit becomes effective reference to such exhibit shall mean the then latest revision thereof.

3.3 Exhibits Considered Correct. For all purposes of this agreement said exhibits shall be considered to be true and correct unless and until they are revised or corrected in accordance with this Agreement.

3.4 Revision of Exhibits. Exhibits "A", "B", and "C" shall be revised by the Unit Operator whenever changes render such revision necessary or to correct any mathematical or other errors which might exist in said exhibits.

3.5 Recording of Revised Exhibits. Whenever an exhibit is revised in accordance with the terms and provisions hereof, the Unit Operator shall certify to the revised exhibit and shall file it for record in Lea County, New Mexico, and Andrews County, Texas, and with the Supervisor and with the Commissioner.

#### ARTICLE 4

##### UNIT AREA AND UNITIZED SUBSTANCES

4.1 The Unit Area shall be that as defined under 2.14 hereof. All oil and gas in or that may be produced from the Unitized Formation underlying the lands within the Unit Area together with the right to use the surface of such lands for the development and operation of the Unitized Formation are unitized under the terms of this agreement. Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as hereinabove defined.

#### ARTICLE 5

##### ENLARGEMENT OF UNIT AREA

5.1 Enlargement. The above described Unit Area shall when practicable be expanded to include any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

5.1.1 Unit Operator when authorized by a vote of at least ninety per cent (90%) of the combined voting interests, after preliminary concurrence of the Director and the Commissioner, shall:

- a. Prepare a notice of the proposed expansion, describing the contemplated changes in the boundary of the Unit Area, the reason therefor and the proposed effective date thereof, delivering copies of the notice to the Supervisor and the Commissioner, and mailing copies to

the last known address of each lessee, lessor and Working Interest Owner whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections, and

b. Upon expiration of said thirty (30) day period as set out immediately above Unit Operator shall file with the Director, Commissioner, Commission and Railroad Commission the following:

- i. Evidence of mailing of the notice of expansion;
- ii. A copy of any objections thereto which have been filed with the Unit Operator;
- iii. An application for such expansion;
- iv. An instrument containing the appropriate joiners in compliance with the participation requirements of Article 31 hereof.

5.2 The Effective Date of Enlargement. An enlargement of the Unit Area shall, after due consideration of all pertinent information and upon approval by the Director, Commission, Commissioner, and Railroad Commission, become effective at 7:00 o'clock A.M. on the date set forth in said notice.

## ARTICLE 6

### UNIT OPERATOR

6.1 SOHIO PETROLEUM COMPANY is hereby designated as Unit Operator, and by signing this instrument as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the operations, development and production of Unitized Substances as herein provided.

6.2 Whenever reference is made herein or in the Unit Operating Agreement to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of an interest in Unitized Substances; and the term "Working Interest Owner" or the term "Royalty Owner" as so used, shall include Unit Operator as the owner of a Working Interest or Royalty Interest, respectively, when such interest is owned by it.

## ARTICLE 7

### RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Unit Operator shall have the right to resign at any time, but such

resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Director, Commission, Commissioner, and the Railroad Commission and until all wells then subject hereto are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to Federal lands and by the Commission and Railroad Commission as to State and/or fee lands unless a new Unit Operator or Unit Manager shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

7.3 The Working Interest Owners may remove the Unit Operator by the affirmative vote of eighty-five per cent (85%) of the Voting Interest of all the Working Interest Owners other than the one acting as Unit Operator. Such removal shall be effective upon notice thereof to the Unit Operator, the Director and the Commissioner.

7.4 In all such instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, preferably at least thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

7.5 The resignation or removal of Unit Operator, under this agreement, shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, appurtenances and any other assets, used in conducting the unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

7.6 Sale or other disposition of all its Working Interest in the Unit Area by Unit Operator will operate automatically to effect the removal of Unit Operator. No sale or disposition of Working Interest by Unit Operator shall include or pass the right to act as Unit Operator.

## ARTICLE 8

### SUCCESSOR UNIT OPERATOR

8.1 Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners in accordance with the terms and provisions of the Unit Operating Agreement. Such selection shall not become effective until (a) a Unit Operator so selected shall accept, in writing, the duties and responsibilities of Unit Operator, and (b) the selection shall have

been filed with the Supervisor and approved by the Commissioner. If no successor Unit Operator or Unit Manager is selected and qualified as provided herein, the Director and Commissioner at their election may declare this Unit Agreement terminated.

## ARTICLE 9

### ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 Costs and expenses incurred by Unit Operator in conducting Unit operations hereunder, shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the agreement or agreements entered into (separately or collectively) by and between the Working Interest Owners and Unit Operator, herein referred to as Unit Operating Agreement. However, nothing contained herein or in the Unit Operating Agreement shall obligate any Working Interest Owner or the Unit Operator to bear or pay any tax upon any Royalty Interest or upon the production or sale of Unitized Substances accruing or allotted thereto or any tax measured by such production or the value or proceeds of sale thereof. Such Unit Operating Agreement may also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing to them in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners. However, no such operating agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligations established under this Unit Agreement; and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Supervisor, prior to approval of this agreement by the Director, and two true copies shall be filed with the Commissioner.

## ARTICLE 10

### RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 Except as otherwise specifically provided herein or in the Unit Operating Agreement, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary for producing, storing, allocating and distributing the Unitized Substances, are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer to Unit Operator title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

## ARTICLE 11

### PLAN OF OPERATIONS

11.1 It is recognized and agreed by the parties hereto that the land

subject to this Agreement is reasonably proved to be productive of Unitized Substances in paying quantities or necessary for Unit Operations and that the object and purpose of this Agreement is to formulate and put into effect a secondary recovery project in order to effect the increased recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that Unit Operator may, subject to the consent and approval of a plan of operation by Working Interest Owners, the Supervisor, and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, and any one or more other substances, whether produced from the Unit Area or not.

11.2 Unitized Substances produced from wells in the New Mexico and Texas Subdivisions of the Unit Area, respectively, shall be separately measured and sold, and reported separately to the proper governmental authorities of the two states. In case of any Unitized Substance which is stored in tanks or other facilities, the storage tanks or facilities for the production from the two subdivisions shall be separate from each other. It is recognized that the proper governmental authorities respectively of each of the two states will or may provide for separate allowables of production of Unitized Substances from each of the two subdivisions, however, the provisions of this paragraph 11.2 shall not alter or affect the computation and definition of the Tract Participation of the Tracts as herein elsewhere set forth; nor shall this Unit Agreement operate to create separate units for the New Mexico and Texas Subdivisions of the Unit Area — it being agreed that only one unit is created hereby.

11.3 The Working Interest Owners, Supervisor, Commissioner, Commission and Railroad Commission shall be furnished periodical reports of the plan of operation and any revisions or changes thereto; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to consent and approval of the Working Interest Owners, the Supervisor, Commissioner, Commission, and Railroad Commission.

11.4 The initial plan of operation shall be filed with the Supervisor, Commissioner, Commission, and Railroad Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor, Commissioner, Commission and Railroad Commission may determine to be necessary for timely operation consistent herewith. The initial plan of operation shall include a pilot water flood to determine the feasibility of water flooding the Unit Area.

11.5 Reasonable diligence shall be exercised in complying with the approved plan of development and operation, however, notwithstanding anything to the contrary herein contained, the Unit Operator shall commence secondary recovery operations on the Unit Area within six (6) months after the effective date of this Agreement, or any extension thereof approved by the Director and Commissioner or this Agreement shall terminate automatically, in which latter event Unit Operator shall notify all interested parties.

## ARTICLE 12

### TRACT PARTICIPATION

12.1 Tract Participation of each Tract is based upon the summation of four factors weighted as follows, to wit:

12.1.1 10% times the ratio of the total number of Usable Wells



upon the Tract to the total number of Usable Wells in the Unit Area.

- 12.1.2 20% times the ratio of total number of Waterflood Acre-Feet in the Tract to the total number of Waterflood Acre-Feet in the Unit Area.
- 12.1.3 40% times the ratio of total accumulated primary production of oil from the Tract from first production to October 1, 1961, to total accumulated primary production of oil from the Unit Area for said period.
- 12.1.4 30% times the ratio of the total remaining primary production of oil from the Tract to the total remaining primary production of oil from the Unit Area from and after October 1, 1961.

### ARTICLE 13

#### TRACTS QUALIFIED

13.1 Qualification of Tracts. On and after the effective date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances therefrom, shall be those Tracts within the Unit Area, and more particularly described in Exhibit "B" that are qualified as follows:

- 13.1.1 Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest therein, have signed or ratified this agreement and Royalty Owners owning one hundred per cent (100%) of the Royalty Interest therein have signed or ratified this agreement; or
- 13.1.2 Each Tract as to which Working Interest Owners owning not less than ninety-five per cent (95%) of the Working Interest therein have signed or ratified this Agreement and Royalty Owners owning not less than seventy-five per cent (75%) of the Royalty Interest therein have signed or ratified this Agreement, and in which the Working Interest Owners in said Tract who have signed or ratified this Agreement have agreed to indemnify and hold harmless all other parties hereto against any and all claims and demands that may be made by the nonjoining Working Interest Owners and/or Royalty Owners on account of the inclusion of such Tract in the Unit Area and the operation of the Unit Area on the basis herein set forth; provided, however, that the manner of such indemnity and the inclusion of such Tract in the Unit Area shall have been approved by Working Interest Owners owning eighty-five per cent (85%) of the combined Voting Interest attributable to all of the Tracts which have qualified under Section 13.1.1 above.

13.2 Revision of Exhibit C. If less than all Tracts are committed

hereto as of the effective date of this agreement, Unit Operator, as soon as practicable after such date, shall file with the Supervisor and Commissioner a schedule of Qualified Tracts as of said effective date. Said schedule shall be designated "First Revised Exhibit C" and shall set forth opposite each such Qualified Tract a revised Tract Participation which shall be computed according to the formula set out in Article 12 hereof. Unless disapproved by the Supervisor and the Commissioner within thirty (30) days after filing, said First Revised Exhibit "C" shall become effective as of the effective date hereof.

If after the effective date of this agreement, there is any tract subsequently committed hereto, as provided in Article 5 (Enlargement of Unit Area) hereof, or any non-committed tract subsequently committed hereto under the provisions of Article 31 (Non-joinder and Subsequent Joinder), or if any tract is eliminated from the unit as provided for in Article 30 (Titles), schedule C shall be revised by the Unit Operator and distributed to the Working Interest Owners, the Supervisor, Director, Commissioner, Commission and Railroad Commissioner to show the new tract participation of all the then effectively committed tracts; and the revised schedule, upon approval by the Commissioner and the Supervisor or the Director, shall govern all the allocation of production from and after the effective date thereof until a new schedule is so approved. In all such revisions, the previously committed tracts shall remain in the same ratio one to the other.

#### ARTICLE 14

##### ALLOCATION OF UNITIZED SUBSTANCES

14.1 Allocation to Tracts. All Unitized Substances produced and saved shall be apportioned and allocated to the several qualified Tracts in accordance with the respective Tract Participations effective hereunder from and after the effective date hereof, as set forth in Exhibit "C"; less, save and except any part of such Unitized Substances used in conformity with good operating practices within the Unit Area for drilling, operating, camp, and other development purposes and for pressure maintenance and other operations hereunder, or lost or destroyed in handling, or delivered to lessors under terms of their respective leases for use on the leased premises within the Unit Area -- as to all of which the parties hereto agree that no royalty, overriding royalty, production payment or other payment to any Royalty Owner shall be payable. The amount of Unitized Substances so allocated to each Tract, and only that amount, regardless of whether it be more or less than the amount of actual production from the well or wells, if any, on such Tract, shall for all intents, uses and purposes, be deemed to have been produced from such Tract.

14.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such Tract to the same extent and in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect. If ownership of the Working Interest and/or Royalty Interest is not uniform throughout any Tract, or if the Working Interest and/or Royalty Interest, or any part thereof, in any Tract are divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participation assigned to such a Tract shall in each such instance, in the absence of a recordable instrument executed by all such owners and furnished to Unit Operator fixing the division of ownership on a uniform basis throughout the Tract, be divided among the parcels or portions in

which there is uniformity of ownership, in proportion to the number of surface acres in each.

14.3 Ownership Prior to Effective Date or Dates. This Agreement shall not affect ownership of oil and gas produced prior to its effective date; and anything herein contained to the contrary notwithstanding (except for the provisions of Article 23) there shall not be any retroactive adjustment for production of oil and/or gas obtained prior to the effective date of this agreement, the effective date of joinder of any Tract or parcel of land, or the effective date of commitment of any interest to this Agreement. No Tract committed to this Agreement and qualified for participation as elsewhere herein provided shall be subsequently excluded from participation because of depletion of Unitized Substances.

14.4 Responsibility to Royalty Owner. If any Working Interest Owner shall receive in kind, dispose of or receive proceeds of sale of any of the Unitized Substances which accrues to the Royalty Interest of any Royalty Owner then in each such instance such Working Interest Owner shall account to such Royalty Owner for the latter's share of such production or proceeds of same and shall hold each other party hereto harmless against all claims, demands and causes of action on the part of such Royalty Owner for or in respect of its share of such production or proceeds of sale of same.

## ARTICLE 15

### DISPOSITION OF UNITIZED SUBSTANCES

15.1 The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each such party entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and/or to sell or dispose of the same as it sees fit. Notwithstanding any other provision hereof, each party shall always have the right of separately disposing of its share of the Unitized Substances produced and saved, and shall execute all division orders or other instruments pertaining to the sale of its share of such production. Each such party shall have the right to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any such party shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unit Area currently as and when produced, then so long as such conditions continue, Unit Operator for the account and at the expense of such party in order to avoid curtailing the operation of the Unit Area may sell or otherwise dispose of such production at the then prevailing market price for Unitized Substances of the same kind, grade and quality in which event Unit Operator shall account monthly to such party for the proceeds thereof, provided, however, that the term of any contract made by Unit Operator for the sale of such Unitized Substances shall be no longer than is commensurate with the minimum needs of the industry under the circumstances and in no event longer than one year; and provided further that Unit Operator's right to sell Unitized Substances not taken in kind or sold by the party entitled thereto shall be revocable at the will of such party.

## ARTICLE 16

### ROYALTY SETTLEMENT

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

16.2 All royalties due the United States of America, the State of New Mexico, and the other Royalty Owners hereunder on each Tract shall be computed and paid on the basis of the Unitized Substances allocated to the respective Tracts committed hereto, in lieu of actual production from each such Tract.

16.3 Each Royalty Owner (other than the United States of America and the State of New Mexico) that executes this Agreement, represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area. If any Royalty Interest in a Tract or Tracts should be lost by title failure in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

16.4 If the amount of Unitized Substances accruing to any Royalty Interest or Working Interest in a Tract depends by the terms of the instrument reserving or creating it, on the per well production from such Tract during any period of time, then for the purpose of computing the quantity of Unitized Substances accruing to such Interest during such period of time, there shall be deemed located on such Tract that percentage of the total number of wells completed in the entire Unitized Formation and used or usable at the beginning of such period, either as producing wells or injection wells, which is equal to the Tract Participation of such Tract, and the quantity of Unitized Substances allocated to such Tract, as above provided, shall be deemed to have been produced in equal proportions by the number of wells so deemed located on such Tract; except for leases issued by the United States of America on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the Unit Area were a single consolidated lease.

## ARTICLE 17

### RENTAL SETTLEMENT

17.1 In each instance in which proceeds of royalty production shall be less than the required minimum rental or royalty due on the area including some

portion of the Unit Area, the deficiency shall be made up and paid by the Working Interest Owners of the portion of lease in question. Rental for the lands of the State of New Mexico, subject to this agreement, shall be paid by such Working Interest Owners at the rate specified in the respective leases from the State of New Mexico. Rental or minimum royalty from lands of the United States of America, subject to this agreement, shall be paid by such Working Interest Owners at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

## ARTICLE 18

### CONSERVATION

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

## ARTICLE 19

### DRAINAGE

19.1 The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the Unitized Formation by wells on lands not subject to this Agreement.

## ARTICLE 20

### LEASES AND CONTRACTS CONFORMED AND EXTENDED

20.1 The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil and/or gas of lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but shall otherwise remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof of their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty or royalty requirements of Federal and State of New Mexico leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement. Without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

- 20.1.2 Drilling, producing or secondary recovery operations performed hereunder upon any qualified Tract of Unitized Land will be accepted and deemed to be performed upon and for the benefit of each and every qualified Tract of the Unit Area, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- 20.1.3 Suspension of drilling or producing operations on any qualified Tract within the Unit Area pursuant to direction or consent of the Secretary, Commissioner, Commission and/or Railroad Commission, or their duly authorized representatives, or other lawful authority having jurisdiction, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every qualified Tract within the Unit Area and no lease shall terminate by reason of such suspension, but every lease shall remain in full force and effect during the period of suspension.
- 20.1.4 Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil and/or gas which might expire prior to the termination of this Agreement is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- 20.1.5 Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.
- 20.1.6 Any lease other than a Federal or State of New Mexico lease having only a portion of its land committed hereto shall be segregated as to the land subject to this Agreement and the lands not subject to this Agreement, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that so long as Unitized Substances are produced from the Unit Area and a portion is allocated to the lands within such lease included within the Unit Area or so long as the Unit Operator in accordance with the provisions of this Agreement is engaged in secondary recovery operations or drilling or reworking wells for the purpose of improving or maintaining or restoring production of Unitized Substances that portion of the lease which is not committed to this Agreement shall remain in full force and effect.
- 20.1.7 If a Federal lease committed to this Agreement covers lands outside the Unit Area such lease shall be governed by the 4th paragraph of Section 17 (j) of the Mineral Leasing Act as amended by the Act of September 2, 1960 (74 Stat. 781-784).
- 20.1.8 Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the por-

tion not committed and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, (a) if Unitized Substances are discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement, or (b) so long as a portion of Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or (c) if, at the expiration of the full term thereof, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein such lease shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as Unitized Substances are produced in paying quantities from any portion of said lands.

## ARTICLE 21

### COVENANTS RUN WITH THE LAND

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

## ARTICLE 22

### EFFECTIVE DATE AND TERM

22.1 When Agreement Effective. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock A.M. on the first day of the calendar month next following:

22.1.1 The execution or ratification of this Agreement and/or the Unit Operating Agreement by Working Interest Owners owning a combined Voting Interest of all the qualified Tracts within the Unit Area of not less than ninety-five per cent (95%); and the qualification for participation by all Tracts in said Unit Area as provided in Article 13 hereof, and such qualification shall, notwithstanding any

other provision hereof be a condition precedent to this Agreement's becoming effective, and

- 22.1.2 The final approval of this Agreement by the Commissioner, Commission, Railroad Commission and the Secretary of his duly authorized representative, and
- 22.1.3 The filing of at least one counterpart of this Agreement in the records of Lea County, New Mexico, and the records of Andrews County, Texas, by Unit Operator; provided that the above filings must be made within thirty (30) days after the final approval as provided above in this Article, and
- 22.1.4 The delivery by Unit Operator to the Supervisor and the Commissioner of a certificate to the effect that this Agreement will become effective according to its terms and stating the effective date, and the filing of such certificate in the records of Lea County, New Mexico, and Andrews County, Texas.

22.2 Expiration Before it Becomes Effective. This Agreement shall ipso facto expire on July 1, 1964 (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Voting Interest in qualified Tracts within the Unit Area of at least ninety per cent (90%) and who have decided to extend said expiration date for a period not to exceed six (6) months. If said expiration date is so extended and 22.1.1, 22.1.2, 22.1.3, and 22.1.4 are not accomplished on or before said extended expiration date, this agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

22.3 Term. This Agreement shall continue in force and effect from and after the effective date so long as Unitized Substances are produced from the Unit Area in paying quantities or drilling, reworking or other operations are conducted by Working Interest Owners for the purpose of obtaining or restoring production of Unitized Substances from the Unit Area without cessation in production or in such operations of more than ninety (90) consecutive days at any one time; provided, however, that if production of Unitized Substances or the conduct of drilling, reworking or other operations for the production of Unitized Substances is prevented by force majeure at any time or times this Agreement shall not terminate by reason of the cessation of such production or such operations provided that such production or such operations are resumed within sixty (60) days after such force majeure has ceased to operate and provided further, (1) this agreement shall terminate automatically as of the first day of the month after the owners of 85 per cent of the voting interests shall have determined that the pilot flood required under Article 11.4 is unsuccessful, and all principals are notified promptly, or (2) if the owners of 85 per cent of the voting interests determine that the unit agreement should be terminated because it can no longer be operated profitably, feasibly, or in the interest of conservation, this agreement may be terminated with approval of the Commissioner and the Director, effective as of the first day of the month after such approval by the Director.

22.4 Effect of Termination. On termination of this Agreement the further development and operation of the Unitized Formation under this Agreement



shall be abandoned and the unitization effected by this Agreement shall be at an end and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into, provided, however, that Royalty Owners, to the extent of their authority, hereby grant Working Interest Owners a period of twelve (12) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with the operations hereunder.

22.5 Certificate of Termination. Upon termination of this Agreement in accordance with this Article, Unit Operator shall execute and file for record in Lea County, New Mexico, and Andrews County, Texas, certificate evidencing such termination provided, however, that such certificate shall be filed only after the approval of Working Interest Owners as above provided.

### ARTICLE 23

#### PRODUCTION AS OF THE EFFECTIVE DATE

23.1 Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after effective date hereof.

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

### ARTICLE 24

#### RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

24.1 All production and disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. As to lands within the State of New Mexico, the Director is hereby vested with authority from time to time, in his discretion to alter or modify the rate of prospecting and development and within the limits made or fixed by the Commission to alter or modify the quantity and rate of production under this Agreement; provided that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of specific written approval thereof by the Commissioner, and as to any lands of the State of New Mexico or privately owned lands in said State subject to this Agreement, as to the quantity and rate of production in the absence of specific written approval thereof by the

Commission. As to lands within the State of Texas, the Director is hereby vested with authority similar to that above vested in him as to lands in New Mexico, provided that all alterations or modifications of the kind above mentioned, shall be within limits made or fixed by the Railroad Commission, and provided further that no such alteration or modification shall be effective in the absence of specific written approval thereof by the Railroad Commission -- it being agreed that the making of Field Rules and the matter of fixing the amount of production of oil or gas as to lands in Texas are the province of the Railroad Commission. And provided further that the authority vested above in the Director in this Article 24 is limited to alteration or modification in the public interest -- the purpose thereof and the public interest to be served to be stated in the order of alteration or modification.

Powers in this Article 24 vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

## ARTICLE 25

### APPEARANCES

25.1 Unit Operator shall, after notice to the other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department, the Commissioner, the Commission and the Railroad Commission, and to appeal from orders issued under regulations of said Department, Commissioner, Commission or Railroad Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the said Department, Commissioner, Commission or Railroad Commission or any other legally constituted authority, provided, however, that any other interested party shall also have the right, at his own expense, to be heard in any such proceedings.

## ARTICLE 26

### NOTICES

26.1 Except as otherwise specified herein, each notice given pursuant to this Agreement shall be given in writing as follows: (a) By registered or certified mail or by telegraph with postage or charges prepaid, properly addressed to each party to whom given at such party's address set forth below its signature to this Agreement or its ratification or consent hereto; or (b) By personal delivery to the party to whom the notice is to be given, provided that if delivered to a corporate party, the notice shall be delivered personally to an executive officer of such party, subject to the provisions of (c) below; or (c) In case of each Working Interest Owner who shall designate a representative and/or alternate representative as specified in Section 5.2 of the Unit Operating Agreement, the notice may be given either by personal delivery to such a representative or alternate representative or by mailing or telegraphing the same (with postage or charges prepaid) to such representative or alternate representative in the manner above specified, properly addressed to such representative or alternate representative at his address specified in the designation made by the Working Interest Owner. Each notice given by mail or telegraph as above provided shall be deemed given 48 hours after such notice is deposited in the United States mail or 24 hours after it is filed with an operating telegraph company for immediate transmission by telegraph. Any party hereto may change the address to which notices for it may be sent by appropriate

written notice to Unit Operator, provided that notice of such change of address of Unit Operator shall be given by the latter to all other parties hereto. Notice given in the manner above specified, to the husband of any married woman who is a party to this Agreement, shall also constitute notice to her.

#### ARTICLE 27

##### NO WAIVER OF CERTAIN RIGHTS

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

#### ARTICLE 28

##### NON-LIABILITY - FORCE MAJEURE

28.1 Unit Operator shall not be liable to any other party hereto for anything wrongfully or negligently done or omitted to be done in the conduct of operations hereunder except in case of bad faith. The obligations, other than the obligation to make money payments herein provided for, of Unit Operator or any Working Interest Owner shall be suspended to the extent that and so long as performance thereof is prevented by fire, explosion, action of the elements, unavoidable accidents, strikes or other differences with workmen, acts of civil or military authorities, act of the public enemy, war, restrictions or restraints imposed by law or regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, uncontrollable delays in transportation, inability to obtain materials or equipment in open market, or any other cause reasonably beyond control by such party, whether or not similar to any cause above enumerated; and such party shall not be liable to any other party for losses caused by any of said matters or things. The affected party shall give notice thereof to the other parties hereto as promptly as reasonably possible.

#### ARTICLE 29

##### NON-DISCRIMINATION

29.1 In the performance of work under this Agreement the Operator agrees to comply with the non-discrimination provisions of Section 301 (1) (7) inclusive of Executive Order 10925, as amended, (28 F.R. 6485) which are hereby included by reference in this Agreement.

#### ARTICLE 30

##### TITLES

30.1 Exclusion of Qualified Tracts. Whenever it is determined by Working Interest Owners after the effective date that through error or because of failure in title of a party hereto a qualified Tract at or after the effective date failed to meet the requirements specified in Article 13 such Tract shall be excluded from Participation as of 7:00 o'clock A.M. on the first day of the

calendar month next succeeding the month in which such determination is made, provided, however, that if such Tract meets the requirements specified in Article 13 before the exclusion thereof becomes effective it shall not be excluded.

30.2 Revision of Exhibits. If a Tract is excluded pursuant to 30.1, Unit Operator shall revise Exhibit "C" accordingly recomputing the Tract Participation of the remaining qualified Tracts such revised Exhibit to be effective as of the time at which the exclusion of such Tract becomes effective. In any such computation the qualified Tract Participation of the remaining qualified Tracts shall remain in the same ratio one to another.

30.3 Retention of Tract. If there is a failure in the title of any party hereto to a Royalty Interest or a Working Interest in a Tract but such Tract is not excluded as above provided, the party whose title has failed shall not be entitled to any benefits under this Agreement in respect of the interest affected by the title failure.

30.4 Production Where Title Is In Dispute. If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the discretion of Working Interest Owners shall either:

30.4.1 Require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid, furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

30.4.2 Withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof without liability for interest until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto; provided, that as to State or Federal land or leases, no payments of funds due the State of New Mexico or the United States of America should be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands of the State of New Mexico and the Supervisor of the United States Geological Survey, to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

### ARTICLE 31

#### NON-JOINDER AND SUBSEQUENT JOINDER

31.1 Non-Qualified and Non-Committed Tracts. Any tract not qualified

as of the effective date of this agreement or any tract brought into this unit pursuant to Article 5 may be committed to this agreement by meeting such requirements as may be voted by ninety per cent (90%) of the voting interest, by qualifying pursuant to Article 13, and by effecting a joinder pursuant to Article 31, if needed.

31.2 Prior to Six (6) Months After Effective Date. Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to submission of this Agreement to the Director, the Commissioner, Commission and Railroad Commission for final approval, may (subject to provisions of Article 14.3) thereafter be committed hereto upon compliance with the applicable provisions of Article 13 hereof, at any time up to the effective date hereof and for a period of six (6) months thereafter, on the same basis of participation as provided for in Article 12 by the owner or owners thereof subscribing or consenting in writing to this Agreement; provided that the Tract embracing such an interest must have been qualified for participation prior to the effective date hereof as required by Articles 13 and 22 hereof.

31.3 Subsequent to Six (6) Months After Effective Date. It is understood and agreed, however, that subsequent to six (6) months after the effective date hereof, the right of subsequent joinder as provided in this section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having ninety per cent (90%) of the combined Voting Interest of all the Working Interest Owners subject to the approval of the Director and Commissioner. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner.

31.4 Effective Date of Joinder. Except as may otherwise herein be provided, subsequent joinder to this Agreement shall be effective at 7:00 o'clock A.M. as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish commitment of the interest in question to this Agreement.

31.5 Acquisition of Uncommitted Interests. In the event at any time after the effective date hereof any party bound by this Agreement acquires an uncommitted interest in any qualified Tract such interest upon being so acquired shall be, upon approval of Working Interest Owners, subject to this Agreement effective as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such acquisition and where such interest acquired is a Working Interest, such interest shall also be subject to the Unit Operating Agreement. Notice of such acquisition shall be filed with the Supervisor not more than fifteen (15) days following such effective date.

## ARTICLE 32

### COUNTERPARTS AND RATIFICATIONS

32.1 Counterparts. This Agreement may be executed in any number of counterparts and all executed counterparts hereof shall be deemed to constitute

a single instrument binding upon every party executing any counterpart hereof, with the same force and effect as if all parties who execute counterparts hereof had joined in the execution of the same counterpart hereof.

32.2 Ratification. This Agreement may be ratified by a separate instrument in writing, and each party who executes any such instrument shall be deemed a party to this Agreement with the same force and effect as if such party had executed a counterpart hereof.

32.3 Joinder by Working Interest Owner in Unit Operating Agreement. Execution or ratification of this Agreement by a Working Interest Owner shall constitute ratification of and joinder in the Unit Operating Agreement by such Working Interest Owner with like effect as if such Working Interest Owner had executed the Unit Operating Agreement.

### ARTICLE 33

#### UNLEASED INTERESTS

33.1 Where a party to this Agreement commits hereto an oil and gas interest that is unleased, then for all purposes of this Agreement and the Unit Operating Agreement, such party shall be considered a "Working Interest Owner" as herein defined, as to 7/8ths thereof and a "Royalty Owner" as herein defined, as to 1/8th thereof; and said 7/8ths shall be considered to be a "Working Interest" as herein defined; and said 1/8th shall be considered a "Royalty Interest" as herein defined. And for all purposes aforesaid, such Working Interest shall be treated as a lease remaining in force as long as this Unit Agreement remains in force.

### ARTICLE 34

#### INJECTION RIGHTS; EASEMENTS; WATER

34.1 Royalty Owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts the Working Interest Owners deem expedient, including the right to place and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells for said purposes in accordance with an approved plan of operation as provided in Section 11.1. The parties hereto to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the area embracing the Unit Area as may be reasonably necessary for the operation and development of the Unitized Formation, including a site for a water, gas injection, processing or other plant, and camp site. Working Interest Owners shall have free use of water from the Unit Area for operations hereunder except water from Royalty Owners' wells, private lakes, ponds, or irrigation ditches.

### ARTICLE 35

#### OIL AND GAS INTEREST NOT TRANSFERRED

35.1 Notwithstanding any other provision of this Agreement each of the parties hereto reserves its title to its mineral interests in the respective Tracts in the Unit Area and the Unitized Substances credited to it hereunder and nothing

contained in this Agreement shall be construed to transfer or assign from one party to another or others, individually or collectively, any mineral interest in the separately owned Tracts, other than the right to share in the allocation of Unitized Substances produced from the Unit Area as herein specified and to use and operate the Unit Area to the extent set out in this Agreement. The term "mineral interest" as used in this Article 35 shall include Working Interests and Royalty Interests.

#### ARTICLE 36

##### REPORTS

36.1 Unit Operator shall make such reports to governmental authorities as may be required by applicable laws or by the regulations or orders of such authorities.

#### ARTICLE 37

##### TAXES

37.1 Each party hereto shall for its own account render and be responsible for the payment of its share of any taxes levied against or measured by the amount or value of Unitized Substances produced from the Unit Area.

Nothing herein contained shall impair the right of any Working Interest Owner or Royalty Owner to contest the validity of any levy, assessment, or imposition of any tax by any governmental authority including without limitation production taxes, a tax upon or measured by production or an ad valorem tax.

#### ARTICLE 38

##### INTERNAL REVENUE PROVISIONS

38.1 It is agreed that it is not the purpose or intention of this Agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership relation. The parties hereto, and each of them, hereby agree that this Agreement shall not constitute a partnership as defined in the Internal Revenue Code of 1954, and specifically elect to be excluded from all of Sub-Chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or similar provision of any applicable state income tax law. Unit Operator is hereby authorized and directed to execute and file on behalf of each Working Interest Owner such further evidence of such election as may be required to make such election under the laws and regulations promulgated thereunder.

#### ARTICLE 39

##### VARIABLE INTERESTS

39.1 In case of any change in amounts of interest in the Unitized Formation or Unitized Substances accruing to or owned by any party or parties which results from any variable or sliding scale royalty provided for in any lease now or hereafter becoming subject to this Agreement, variable overriding royalty, liquidation of any production payment, or other kind of variable interest, or other

cause, each party so affected shall promptly advise Unit Operator thereof. Every renewal or exchange lease issued as a renewal of or exchange of any Federal lease covering any part of the Unit Area shall be subject to the terms and provisions of this Agreement in the same manner and to the same extent as the lease so renewed or exchanged.

39.2 Notwithstanding any other provisions of this Agreement or of the Unit Operating Agreement, it is agreed that there shall be no obligation on the part of Unit Operator to ascertain or determine when any production payment is satisfied or paid out, or when there is any change in allocation of Unitized Substances to any party hereto on account of any variable royalty, overriding royalty, or other variable interest. It shall be the duty and responsibility of the affected Working Interest Owners and Royalty Owners in all such instances to take such action as may be proper or necessary to effectuate appropriate changes in the allocation of Unitized Substances and proceeds of sale of same, including without limitation the notification of pipeline companies and purchasers of production and the execution of transfer orders, division orders and other documents which may be required.

#### ARTICLE 40

##### CONFLICT OF SUPERVISION

40.1 Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and/or proper representatives of the States of New Mexico and/or Texas in and about any matters or things concerning which it is required herein that such concurrence be obtained.

#### ARTICLE 41

##### LAWS AND REGULATIONS

41.1 Effect on Agreement. This Agreement and operations hereunder shall be subject to the conservation laws of the States of New Mexico and Texas, to the rules, regulations and orders of the Commission and the Railroad Commission and to all other applicable laws and rules, regulations and orders of governmental authority whether Federal, State or local. Unit Operator and Working Interest Owners shall be entitled to assume that every such law, rule, regulation or order is valid and enforceable unless and until the contrary is established by final judgment of a court of competent jurisdiction. It is not the intent of this Agreement to limit, restrict or prorate the production of Unitized Substances, it being recognized that such powers are to be exercised exclusively by governmental authority.

#### ARTICLE 42

##### RELATIONSHIP OF PARTIES

42.1 No Partnership Created. This Agreement is not intended to create,



and nothing contained herein shall be construed as creating, an association or trust or as imposing a partnership duty, obligation or liability, with regard to any one or more of the parties hereto, it being intended that the duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, each party hereto being individually responsible for the obligations herein assumed by such party.

42.2 No Sharing of Market. Nothing in this Agreement shall be construed as providing directly or indirectly for any cooperative refining or joint sale or cooperative marketing of Unitized Substances.

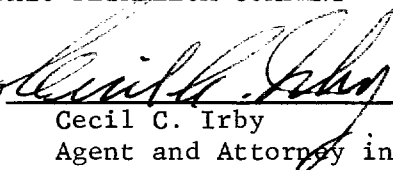
42.3 Royalty Owners Free of Costs. Nothing contained in this Agreement shall be construed as imposing upon any Royalty Owner any obligation to pay any of the expenses incurred in the development or operation of the Unitized Formation except to the extent, if any, that such Royalty Owner is obligated to pay the same by the terms of an agreement other than this Agreement.

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

SOHIO PETROLEUM COMPANY

DATE: September 9, 1963

By

  
Cecil C. Irby

Agent and Attorney in Fact

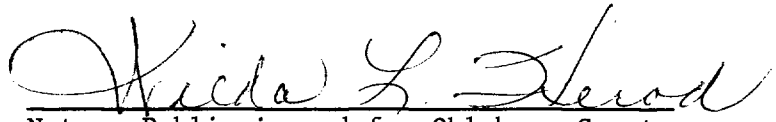
970 First National Office Building  
Oklahoma City, Oklahoma 73102

STATE OF OKLAHOMA       )  
                                  )  
COUNTY OF OKLAHOMA     )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared CECIL C. IRBY known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said SOHIO PETROLEUM COMPANY, an Ohio Corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by CECIL C. IRBY, Agent and Attorney in Fact of SOHIO PETROLEUM COMPANY, an Ohio Corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 9th day of SEPTEMBER, A.D. 1963.

My Commission Expires:  
September 6, 1965

  
Notary Public in and for Oklahoma County,  
Oklahoma.

RATIFICATION AND JOINDER TO THE  
LITTMAN SAN ANDRES UNIT AGREEMENT, LEA COUNTY,  
STATE OF NEW MEXICO, AND ANDREWS COUNTY,  
STATE OF TEXAS, DATED SEPTEMBER 9, 1963

For the consideration stated in the above described Unit Agreement, each of the undersigned hereby ratifies, confirms and joins in the execution of said Unit Agreement which is hereby incorporated herein and made a part hereof, to the same extent and effect as if the undersigned had executed the original of said Unit Agreement.

The undersigned acknowledges receipt of a copy of said Unit Agreement and acknowledges that no representations not incorporated herein or in said Unit Agreement have been made to the undersigned and that this instrument has been signed and delivered unconditionally.

DATE \_\_\_\_\_

\_\_\_\_\_  
ADDRESS \_\_\_\_\_  
\_\_\_\_\_

DATE \_\_\_\_\_

\_\_\_\_\_  
ADDRESS \_\_\_\_\_  
\_\_\_\_\_

ATTEST:

\_\_\_\_\_

By \_\_\_\_\_  
President

ADDRESS \_\_\_\_\_  
\_\_\_\_\_

APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior under the Act approved February 25, 1920, 41 Stat. 437, 30 U.S.C. Secs. 181 et seq., as amended by the Act of August 8, 1946, 60 Stat. 950, and delegated to the Director of the Geological Survey, pursuant to Departmental Order No. 2365 of October 8, 1947, 43 CFR Sec. 4.618, 12 FR 6784, I do hereby:

- A. Approve the attached secondary recovery Unit Agreement for the development and operation of the Littman San Andres Unit Area, in the Counties of Lea and Andrews in the States of New Mexico and Texas, respectively.
- B. Certify and determine that the unit plan for secondary recovery contemplated in the attached Agreement is necessary and advisable in the public interest and is for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of the Agreement.

Dated \_\_\_\_\_.

Contract No.

---

Director  
United States Geological Survey

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ and \_\_\_\_\_, his wife, both known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they each executed the same for the purposes and consideration therein expressed, and the said \_\_\_\_\_, wife of the said \_\_\_\_\_, having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said \_\_\_\_\_, acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ and \_\_\_\_\_, his wife.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said \_\_\_\_\_, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_.

R 38 E

Leonard Oil Co.

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Will Terry  
U.S.

Elliott, Inc.

H. A. Keinath  
U.S.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

"F"

WSW

M. W. J. Production  
Company

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

T  
21  
S

M. W. J. Production  
Company

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

M. W. J. Production  
Company

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

M. W. J. Production  
Company

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

M. W. J. Production  
Company

H. A. Keinath

Elliott, Inc.

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Elliott, Inc.

Shell

Sohio

NEW MEXICO

Amerado

Amerado

Sohio

Atlantic

4

Exhibit "A"

LITTMAN (SAN ANDRES) UNIT

LITTMAN (SAN ANDRES) FIELD

ANDREWS COUNTY, TEXAS  
AND  
LEA COUNTY, NEW MEXICO

Legend:

- PRODUCING OIL WELL
- ABANDONED OIL WELL
- DRY HOLE
- WATER SUPPLY WELL
- WATER SUPPLY WELL LOCATION
- WATER SUPPLY WELL LOCATION
- UNIT AREA BOUNDARY
- WATERFLOOD ACRE-FOOT LIMIT LINE
- FEE LAND
- FEDERAL LAND
- STATE LAND
- TRACT NUMBER



DUPRE, STOUT COMPANY  
PETROLEUM ENGINEERS

E X H I B I T "B"  
LITTMAN SAN ANDRES UNIT AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest
UNITED STATES OF AMERICA LEASES									
NEW MEXICO SUBDIVISION									
1	Ohio-Federal NE/4 Sec. 17, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4750 feet.	160.00	1	LC-057443-A	12.50000%	Ohio Oil Co.	13.75000%	- 0 -	Brosco Corporation John B. Rich Sohio Petroleum Company .197916 .010416 .791666
2	Parcel 11-Federal SE/4 Sec. 8, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	160.00	2	LC-062170-A	12.50000%	Elliott, Inc.	03.33300%	- 0 -	Elliott, Inc. 1.0000000
3	Wylie-Federal SW/4 Sec. 9, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	170.69	3	LC-069408	12.50000%	Elliott, Inc.	02.38125%	00.11875%	Elliott, Inc. 1.0000000
Federal Tracts				490.69 Acres					
STATE OF NEW MEXICO LEASES									
4	Numex NW/4 Sec. 16, T-21-S R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4750 feet.	170.69	2	B-11232	12.50000%	Humble Oil & Refining Company	06.25000%	- 0 -	Brosco Corporation John B. Rich Sohio Petroleum Company .2770834 .0145833 .7083333
State of New Mexico Tracts				170.69 Acres.					



E X H I B I T "B"  
(Continued)

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest
<u>FEE LEASES</u>									
<u>TEXAS SUBDIVISION</u>									
5	Freund NE/4 Sec. 15, Block A-29, PSL, Andrews County, Texas, down to a depth of 5000 feet.	160.00	1	None	13.2812%	Humble Oil & Refining Company, et al	04.77208%	- 0 -	.2461179 .0405401 .0712149 .0129536 .6291735
6	Littman S/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	320.00	6	None	14.84374%	Neville G. Penrose	03.51562%	06.09375%	.0131250 .1781250 .0625000 Martha Jane Anthony Broseco Corporation Delhi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company
7	Littman "A" N/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	320.00	7	None	16.79690% 14.84376% 16.01565%***	Phillips Petroleum Company, et al	00.78125%* 00.39063%*** 00.78125%***	- 0 -	.1875000 .0131250 .0131250 .0131250 .0093750 .5000000 Broseco Corporation Delhi Taylor Oil Corporation John B. Rich Shell Oil Company Sohio Petroleum Company
*When average Daily Production per well is more than 35 barrels. **When average Daily Production per well is less than 35 barrels. ***When average Daily Production per well is exactly 35 barrels.									
8	Littman "B" SW/4 Sec. 7, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	160.00	2	None	13.2812%	Phillips Petroleum Company, et al	05.07812%	- 0 -	.0156250 .1781250 .0625000 Martha Jane Anthony Broseco Corporation Delhi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company

E X H I B I T "B"  
(Continued)

Tract No.	Lease Name and Description	Number of Acres	Number of Wells	Lease and/or Assignment Number	Amount of Basic Royalty	Lessee of Record	Overriding Royalty Amount	Production Payment Amount	Working Interest
(Continued)									
9	Monarch E. 40 Ac. of S. 71.25 Ac. of SW/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	40.00	1	None	12.84179%	Phillips Petroleum Company, et al	08.92652%	01.63302%	Broseco Corporation C. S. Longcope John B. Rich Sohio Petroleum Company .276167 .003305 .014531 .705991
10	Sims NW/4 Sec. 14, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	160.00	1	None	12.50000%	Humble Oil & Refining Company	06.25000%	- 0 -	Martha Jane Anthony Broseco Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company .015625 .197916  .187500 .015625 .015625 .015625 .010416 .541666
11	Southland S/2 SE/4 and W. 40 Ac. of N. 71.25 Ac. of SE/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4750 feet.	120.00	3	None	12.89060% 12.69529% 12.69529%	Phillips Petroleum Company, et al	05.61529% 01.99110% 05.61529%	01.63302% 01.63302% 01.63302%	Broseco Corporation J. G. Catlett Co. Cities Service Oil Company Kirby Production Company C. S. Longcope John B. Rich Sohio Petroleum Company .168229 .030486 .333333 .021762 .003305 .008854 .434027
* When daily average production per well is more than 35 barrels. ** When daily average production per well is less than 35 barrels. *** When daily average production per well is exactly 35 barrels.									
Fee Tracts		1,280.00 Acres.							
Total Acreage in Unit		1,941.38 Acres.							

E X H I B I T "C"  
LITTMAN SAN ANDRES UNIT AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

<u>Tract No.</u>	<u>Lease Name and Description</u>	<u>Number of Acres</u>	<u>Lease and/or Assignment Number</u>	<u>Tract Participation</u>
<u>UNITED STATES OF AMERICA LEASES</u>		<u>NEW MEXICO SUBDIVISION</u>		
1	Ohio-Federal NE/4 Sec. 17, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4,750 feet.	160.00	LC-057443-A	03.60701%
2	Parcell-Federal SE/4 Sec. 8, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	160.00	LC-062170-A	02.32066%
3	Wylie-Federal SW/4 Sec. 9, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico	170.69	LC-069408	14.38601%
<u>Federal Tracts</u>		<u>490.69 Acres.</u>		
<u>STATE OF NEW MEXICO LEASES</u>				
4	Numex NW/4, Sec. 16, T-21-S, R-38-E, N.M.P.M., Lea County, New Mexico, Down to a depth of 4,750 feet.	170.69	B-11232	06.66266%
<u>State of New Mexico Tracts</u>		<u>170.69 Acres.</u>		
<u>FEE LEASES</u>		<u>TEXAS SUBDIVISION</u>		
5	Freund NE/4 Sec. 15, Block A-29, PSL, Andrews County, Texas, Down to a depth of 5,000 feet.	160.00	None	00.82290%
6	Littman S/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	320.00	None	20.16509%

E X H I B I T "C"  
(Continued)

<u>Tract No.</u>	<u>Lease Name and Description</u>	<u>Number of Acres</u>	<u>Lease and/or Assignment Number</u>	<u>Tract Participation</u>
<u>FEE LEASES</u> (Continued)				
7	Littman "A" N/2 Sec. 6, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	320.00	None	35.67109%
8	Littman "B" SW/4 Sec. 7, Block A-29, PSL, Andrews County, Texas, down to a depth of 4,750 feet.	160.00	None	07.84198%
9	Monarch E. 40 Ac. of S. 71.25 Acs. of SW/4 Sec. 5, Block A-29, PSL, Andrews County, Texas, down to a depth of 4,750 feet.	40.00	None	01.46833%
10	Sims NW/4 Sec. 14, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	160.00	None	02.17480%
11	Southland S/2 SE/4 and W. 40 Ac. of N. 71.25 Ac. of SE/4, Sec. 5, Block A-29, PSL, Andrews County, Texas, Down to a depth of 4,750 feet.	120.00	None	04.87947%
<u>Fee Tracts</u>		<u>1,280.00 Acres.</u>		
<u>Total Acreage in Unit</u>		<u>1,941.38 Acres.</u>		

<b>BEFORE EXAMINER UTZ</b>	
<b>OIL CONSERVATION COMMISSION</b>	
_____	<b>EXHIBIT NO.</b> <u>2</u>
<b>CASE NO.</b> <u>3049 &amp; 3050</u>	

---

**UNIT OPERATING AGREEMENT**

**LITTMAN SAN ANDRES UNIT**

**LEA COUNTY, NEW MEXICO**

**ANDREWS COUNTY, TEXAS**

---

## INDEX

UNIT OPERATING AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

	<u>Page</u>
Article 1 - Unit Agreement and Existing Operating Agreements	1
1.1 Confirmation of the Unit Agreement	1
1.2 Ratification of the Unit Agreement	1
1.3 Existing Operating Agreements	1
Article 2 - Definitions	1
2.1 Unit Agreement Definitions	1
2.2 Additional Definitions	2
2.3 Use of Neuter Pronouns	2
Article 3 - Exhibits	2
3.1 Unit Agreement Exhibits	2
3.2 Additional Exhibits	2
3.3 Revision of Exhibits	3
3.4 Reference to Exhibits	3
Article 4 - Cost Participation	3
Article 5 - Manner of Exercising Supervision	3
5.1 Right of Supervision	3
5.2 Representatives	4
5.3 Meetings	4
5.4 Vote Required	4
5.5 Absent Voting	4
5.6 Minutes of Meetings	4
5.7 Voting Without a Meeting	5
5.8 Vote Required; Amendment to Exhibit "F"	5

## INDEX

Page 2

	<u>Page</u>
Article 6 – Designation of Operator	5
6.1 Initial Designation	5
6.2 Resignation or Removal	5
6.3 Designation of Successor	5
6.4 Selection of Successor	5
Article 7 – Powers and Duties of Unit Operator	5
7.1 Conduct of Operations	5
7.2 Compliance with Instructions	6
7.3 Specific Duties	6
7.4 Specific Limitations	7
7.5 Employees	7
7.6 Liability of Unit Operator	7
7.7 Non-Discrimination	7
7.8 Settlement of Claims	8
Article 8 – Rights Reserved to Working Interest Owners	8
8.1 Access to Unit Area	8
8.2 Reports and Data	8
Article 9 – Taxes	8
9.1 Production Taxes	8
9.2 Ad Valorem Taxes	8
9.3 Renditions, Returns and Reports	9
Article 10 – Adjustment for Lease and Well Equipment	9
10.1 Delivery of Wells and Equipment	9
10.2 Inventory of Equipment	9
10.3 Valuation of Equipment	10
10.4 Approval of Inventory and Valuation	10

## INDEX

Page 3

	<u>Page</u>
10.5 Equipment Adjustment	10
10.6 Intangible Costs	10
10.7 Warehouse, Camp and Other Facilities	10
10.8 Ownership of Equipment and Other Property	11
Article 11 – Unit Expense	11
11.1 Payment and Charging	11
11.2 Budgets	11
11.3 Advance Billings	11
11.4 Commingling of Funds	12
11.5 Lien of Unit Operator	12
11.6 Default in Payment	12
11.7 Adjustments on Uncommitted Interests	13
11.8 Audits	13
11.9 Non-Participation in Expenditures by a Working Interest Owner	13
Article 12 – Non-Unitized Formations	14
12.1 Right to Operate	14
12.2 Dually Completed Wells	15
Article 13 – Titles	15
13.1 Title Representation and Indemnification	15
13.2 Loss of Title Because of Unit Operations	15
Article 14 – Claims and Suits	15
14.1 Settlement or Defense	15
14.2 Notice of Claim	16
Article 15 – Relationship of Parties	16
15.1 Individual Rights and Obligations	16



INDEX

Page 4

	<u>Page</u>
Article 16 – Notices	16
Article 17 – Withdrawal of Working Interest Owner	16
17.1 Withdrawal	16
Article 18 – Abandonment of Wells	17
18.1 Rights of Former Owners	17
18.2 Plugging	18
Article 19 – Term of Agreement	18
19.1 Effective Date	18
19.2 Term	18
Article 20 – Abandonment of Operations	18
20.1 Termination	18
Article 21 – Transfers of Interest	19
21.1 Successors and Assigns	19
21.2 Notice of Transfers	19
Article 22 – Counterparts and Ratifications	19
22.1 Counterparts	19
22.2 Ratifications	19
Article 23 – Renewal and Exchange Leases	19

UNIT OPERATING AGREEMENT

LITTMAN SAN ANDRES UNIT

LEA COUNTY, NEW MEXICO AND ANDREWS COUNTY, TEXAS

THIS AGREEMENT, made and entered into as of the 9th day of September, 1963, by and between the parties who execute or ratify this agreement,

W I T N E S S E T H:

WHEREAS, the parties hereto as Working Interest Owners have executed and delivered as of the date hereof, that certain Unit Agreement, Littman San Andres Unit, Lea County, New Mexico, and Andrews County, Texas, hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners, pertaining to the development and operation of the San Andres Formation in the Unit Area therein defined.

Now, therefore, in consideration of the mutual covenants and agreements herein set forth, it is agreed as follows:

ARTICLE 1

UNIT AGREEMENT AND EXISTING OPERATING AGREEMENTS

1.1 Confirmation of the Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this agreement. In the event of any conflict between the Unit Agreement and this agreement, the Unit Agreement shall prevail.

1.2 Ratification of the Unit Agreement. Each party who executes or ratifies this agreement without having executed or ratified the Unit Agreement shall be deemed, by the execution and ratification of this agreement, to have ratified and joined in the Unit Agreement with the same force and effect as if such party had executed it.

1.3 Existing Operating Agreements. During the life of this Unit Operating Agreement, all other existing operating agreements providing for operation of jointly owned properties within the Unit Area (except of course, operating and other agreements which create or transfer operating rights under any Federal or other lease which are in lieu of assignments of interest in the lease itself) shall be inoperative to the extent that they relate to the Unitized Formation, except as to settlement of obligations and liabilities accruing thereunder prior to effective date hereof.

ARTICLE 2

DEFINITIONS

2.1 Unit Agreement Definitions. All definitions contained in the Unit Agreement are adopted for the purpose of this agreement.

2.2 Additional definitions of terms used in this agreement are as follows:

2.2.1 "Unit Expense" means all costs and expenses incurred by Unit Operator in the conduct of operations pursuant to this agreement and any and all other costs, expenses and liabilities herein provided to be borne by the Working Interest Owners, except production taxes and ad valorem taxes, for which special provisions are made in Article 9 hereof.

2.2.2 "Cost Participation" means the participation of a Working Interest Owner in operations hereunder determined in accordance with Article 4 hereof, which participation represents the share of Unit Expenses to be charged to and borne by such Working Interest Owner.

2.2.3 "Voting Interest" means the voting power possessed by a Working Interest Owner, and in voting on any matter, each Working Interest Owner shall have a Voting Interest equal to such Working Interest Owner's Cost Participation.

2.2.4 "Unit Participation" means the interest of a Working Interest Owner in Unitized Substances which is arrived at by adding the results obtained by multiplying such Working Interest Owner's fractional oil interest, attributable to its Working Interest, in each Tract by the Tract Participation.

2.3 Use of Neuter Pronouns. Each party hereto is herein referred to by the neuter pronoun, whether such party is a natural person, a corporation, a partnership or other entity.

### ARTICLE 3

#### EXHIBITS

3.1 Unit Agreement Exhibits. Exhibits "A", "B" and "C" of the Unit Agreement are incorporated herein by reference and shall be deemed part of this agreement in the same manner as if attached hereto.

3.2 Additional Exhibits. Attached hereto and made a part hereof are the following exhibits, the participation factors shown on Exhibits "D" and "E" having been computed on the assumption that all Tracts will be included in the Participating Area as established on the effective date:

#### EXHIBIT "D"

Part 1 is a schedule showing for each Tract the decimal fraction of Working Interest therein as to oil and the Tract Participation of such Tract.

Part 2 is a schedule showing by Working Interest Owner the Tract numbers of the Tracts in which such Working Interest Owner owns an interest, the decimal fraction of Working Interest as to oil in the Tract, the Tract Participation and the Cost Participation of each such Working Interest Owner.

EXHIBIT "E" is a schedule showing the decimal fractions of ad valorem taxes which shall be charged against and paid by the respective Working Interest Owners. These decimal fractions represent the proportion which each Working Interest Owner's Unit Participation bears to the total of the Unit Participation for all Working Interest Owners.

EXHIBIT "F" is the Accounting Procedure adopted for the purposes of this Agreement; however, the provisions contained in the body of this agreement shall prevail over any contrary or inconsistent provisions of Exhibit "F".

EXHIBIT "G" is a schedule of insurance to be maintained by Unit Operator for the benefit of the parties hereto, the cost of which is to be included in Unit Expense.

3.3 Revision of Exhibits. Whenever Exhibits "A", "B" and "C" are revised in accordance with the Unit Agreement, Exhibits "D" and "E" shall be revised by Unit Operator to conform to Exhibits "A", "B" and "C" as revised, each such revision of Exhibits "D" and "E" to become effective at the same time the corresponding revisions of Exhibits "A", "B" and "C" become effective. Promptly after revision of Exhibits "A", "B", "C", "D" and "E" Unit Operator shall furnish each party hereto a copy of each revised exhibit.

3.4 Reference to Exhibits. From and after the time at which a revision of any exhibit becomes effective reference in this agreement to such exhibits shall mean the then latest revision thereof.

#### ARTICLE 4

##### COST PARTICIPATIONS

4.1 Computation. The Cost Participation of each Working Interest Owner shall be computed by crediting to the owner or owners of the Working Interest as to oil in a Tract the Tract Participation of such Tract as shown in Exhibit "C", the Tract Participation of a Tract the Working Interest in which as to oil is owned by two or more parties to be credited to such parties in proportion to their respective Working Interests as to oil in such Tract. The total amount credited to a Working Interest Owner for all Tracts in which it has a Working Interest as above provided shall be its Cost Participation.

4.2 Exhibit "D" shall be deemed to be correct and each party hereto agrees that original Exhibit "D" correctly shows each Working Interest owned by it in any Tract listed in original Exhibit "B". Each party hereto agrees to bear the proportion of unit expense equal to its Cost Participation as computed in accordance with Section 4.1 and on the basis of Exhibit "D".

#### ARTICLE 5

##### MANNER OF EXERCISING SUPERVISION

5.1 Right of Supervision. All operations conducted pursuant to this agreement shall be subject to over-all control and supervision by the Working Interest Owners exercised in the manner hereinafter specified. In exercise of

such supervision and control, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as a group. Unit Operator, as a Working Interest Owner, shall have the right to participate to the extent of its Voting Interest in the exercise of such supervision and control, in the same manner as any other party hereto.

5.2 Representatives. Each Working Interest Owner, by written notice to Unit Operator, shall designate and state addresses of a representative and alternate representative, either of whom shall have authority to represent, act for and bind it in all matters herein provided or permitted to be acted upon by the parties hereto; provided however, that a Working Interest Owner who is an individual may act in person. A Working Interest Owner may change its representative or alternate representative by written notice to Unit Operator stating the name and address of the successor. The representative and alternate representative of the Working Interest Owner who may be acting as Unit Operator shall also be its representative in its capacity as Unit Operator.

5.3 Meetings. Regular meetings of the parties hereto shall be held at such times as may be specified by them from time to time. Other meetings of the parties hereto shall be held upon call by the Unit Operator, either on its own motion, or at written request of two or more parties whose Voting Interests total twenty per cent (20%) or more. Unit Operator shall give to each Working Interest Owner written notice of each meeting at least ten (10) days in advance of the date thereof, such notice to be accompanied by the agenda for the meeting. The representative or alternate representative of Unit Operator shall act as the chairman of each meeting; however, in the absence of both the representative and the alternate representative of Unit Operator, a chairman may be designated by the parties represented at the meeting.

5.4 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three or more Working Interest Owners owning a combined Voting Interest of at least sixty-five per cent (65%); provided that should any one Working Interest Owner own more than thirty-five per cent (35%) Voting Interest, its negative vote or failure to vote shall not serve to defeat a motion, and such motion shall pass if approved by a majority Voting Interest unless such negatively voting or non-voting Working Interest Owner is supported by the vote of one or more Working Interest Owners having a combined Voting Interest of at least five per cent (5%).

5.5 Absent Voting. A party hereto who is not represented at a meeting may vote on any matter included in the agenda for the meeting by letter or telegram addressed to the Unit Operator, and delivered to the chairman of the meeting prior to the submission of such matter to vote at the meeting; provided however, that such a vote shall not be counted with respect to any matter on the agenda which is amended at the meeting.

5.6 Minutes of Meetings. At each meeting, the chairman shall designate a suitable person to act as secretary for the purpose of keeping minutes which shall reflect all matters considered and all actions taken at the meeting, although such minutes need not be a verbatim record of the proceedings. If request therefor is made at the meeting, the minutes shall reflect the vote of Working Interest Owners on the action or actions specified in the request. As promptly as reasonably possible after each meeting Unit Operator shall mail to

each Working Interest Owner a true copy of the minutes of the meeting, as signed by the chairman and attested by the secretary; such minutes shall be deemed approved and shall be considered correct unless, within thirty days after the mailing of copies thereof as above provided, Unit Operator receives written objections thereto, with specifications of the item or items objected to and a statement of the reasons for the objection.

5.7 Voting Without A Meeting. The Working Interest Owners may vote by letter or telegram addressed to Unit Operator on any matter that might be considered and acted upon at a meeting with like effect as if their votes were cast at a meeting, provided that a statement of the matter is mailed to all Working Interest Owners and no meeting to consider the matter is called or requested in accordance with Section 5.3 within seven days after the mailing of such statement. Unit Operator shall give to Working Interest Owners prompt notice of the result of voting by mail or telegram, as above provided, and the proposal voted on and the results of the voting shall be reflected in the minutes of the next meeting.

5.8 Vote Required; Amendment to Exhibit "F". Exhibit "F" may be amended by the affirmative vote of two or more Working Interest Owners owning a combined Voting Interest of at least eighty-five per cent (85%); provided that should any one Working Interest Owner own more than fifteen per cent (15%) Voting Interest, its negative vote or failure to vote shall not serve to defeat a motion to amend said Exhibit "F", and such motion shall pass if approved by a majority Voting Interest unless such negatively voting or non-voting Working Interest Owner is supported by vote of one or more Working Interest Owners having a combined Voting Interest of at least five per cent (5%).

## ARTICLE 6

### DESIGNATION OF OPERATOR

6.1 Initial Designation. SOHIO PETROLEUM COMPANY is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. The provisions of Article 7 of the Unit Agreement (Resignation or Removal of Unit Operator) are adopted and made part of this agreement the same as if fully copied at length herein.

6.3 Designation of Successor. The provisions of Article 8 of the Unit Agreement (Successor Unit Operator) are adopted and made part of this agreement the same as if fully copied at length herein.

6.4 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners; provided, that if the Unit Operator that is removed fails to vote or votes only to succeed itself the successor Unit Operator may be selected by the affirmative vote of at least fifty-one per cent (51%) of the Voting Interest after excluding the Voting Interest of the Unit Operator that was removed.

## ARTICLE 7

### POWERS AND DUTIES OF UNIT OPERATOR

7.1 Conduct of Operations. Subject to the provisions of this agreement, the development and operation of the Unit Area for Unitized Substances and

all operations incidental thereto shall be conducted by Unit Operator, and Unit Operator shall be entitled to custody of all materials, equipment and other property owned by the Working Interest Owners jointly.

7.2 Compliance with Instructions. In the conduct of operations hereunder, Unit Operator shall comply with such instructions as are rightfully given it by Working Interest Owners from time to time. Operations not covered by any applicable instructions by Working Interest Owners shall be conducted by Unit Operator in accordance with its best judgment and as would a prudent operator conducting similar operations.

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

7.3.1 Consult freely with the Working Interest Owners and keep them advised of all matters which Unit Operator, in the exercise of reasonable judgment, considers sufficiently important.

7.3.2 Keep true and correct books of account reflecting all items of Unit Expense and ad valorem taxes described in Article 9 hereof, and accurate records of the quantities of Unitized Substances produced, saved and delivered to or for the account of the parties hereto.

7.3.3 Furnish to Working Interest Owners such quarterly reports concerning the development and operation of the Unit Area and the Unitized Substances produced therefrom as may be directed by the Working Interest Owners from time to time.

7.3.4 Furnish to each Working Interest Owner who makes request therefor a copy of the log of each well drilled by the Unit Operator, and a copy of each engineering or geological report prepared by Unit Operator in the conduct of operations hereunder.

7.3.5 Make such reports to governmental authorities as may be required by applicable laws or by the regulations or orders of such authorities.

7.3.6 Keep the Working Interests of the Working Interest Owners and all materials, equipment and other property owned by them jointly, free from liens of persons furnishing labor, material or services in connection with operations conducted by Unit Operator, excepting such as are contested by Unit Operator in good faith.

7.3.7 Maintain in force at Unit Expense while operations are conducted by it hereunder the insurance specified in Exhibit "G".

Except as otherwise provided above, neither fire, explosion, windstorm, nor other property hazard insurance nor underground damage liability insurance shall be provided by Unit Operator for the benefit of the parties hereto.

The premiums paid for insurance carried by Unit Operator pursuant hereto shall be a proper charge to the joint account, except that pre-

miums on insurance described in item (c) of Exhibit "G" shall be handled as provided in Article III, 5, B of Exhibit "F", Accounting Procedure.

It is further understood and agreed that the Unit Operator is not a warrantor of the financial responsibility of any insurer with whom such insurance is carried, and that except for willful negligence, Unit Operator shall not be liable to Working Interest Owners for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Unit Operator shall not be liable to Working Interest Owners for any loss accruing by reason of Unit Operator's inability to procure or maintain the insurance above mentioned. Unit Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance it shall immediately notify in writing Working Interest Owners of such fact.

7.4 Specific Limitations. Except at the direction or with the approval of the Working Interest Owners, Unit Operator shall not:

7.4.1 Undertake any project beyond the scope of normal or routine operations that is reasonably estimated to involve expenditures in excess of \$10,000.00; provided however, that whenever any project is authorized by the parties hereto, Unit Operator shall be authorized to make all expenditures that are necessary or proper in carrying out such project; and further provided, that in case of emergency, Unit Operator is authorized to make such expenditures as may be immediately necessary for the protection of life or property, but prompt notice of such emergency shall be given to the Working Interest Owners.

7.4.2 Make any change in the method of operation theretofore authorized by the Working Interest Owners.

7.4.3 Drill, recomplete, abandon or change the status of any well in the Unit Area.

7.4.4 Dispose of any surplus materials or equipment, excepting junk materials, and also excepting any item (other than pipe and tubular goods) the then current replacement cost of which is less than \$1,500.00.

7.5 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone. The selection of such employees, their hours of labor, and their compensation shall be determined by Unit Operator.

7.6 Liability of Unit Operator. Unit Operator shall not be liable to any other party hereto for anything done or omitted to be done in the conduct of operations hereunder unless caused by its gross negligence or willful misconduct.

7.7 Non-Discrimination. In the performance of work under this agreement the Unit Operator agrees to comply with the non-discrimination provisions of Section 301 (1) (7) inclusive of Executive Order 10925 (26 F.R. 1977) which are hereby included by reference in this agreement.



7.8 Settlement of Claims. Unit Operator shall have authority to settle or pay any claim or suit arising out of operations hereunder for not more than \$1,500.00, for which purpose two or more claims or suits arising out of the same accident or occurrence shall be considered as one claim or suit.

## ARTICLE 8

### RIGHTS RESERVED TO WORKING INTEREST OWNERS

8.1 Access to Unit Area. Each Working Interest Owner shall be entitled at all reasonable times, but at its own risk and expense, to have access to the Unit Area for the purpose of observing operations being conducted pursuant to this agreement and of inspecting wells, equipment and other property on the Unit Area.

8.2 Reports and Data. Each Working Interest Owner, by written request therefor, shall be entitled to receive from Unit Operator copies of all reports made by Unit Operator to governmental agencies, reports of Unitized Substances produced and delivered to or for the account of the Working Interest Owners, inventory reports and all other data pertaining to operations hereunder that are in possession of Unit Operator. However, the cost of assembling and furnishing at the request of a Working Interest Owner, reports and data not furnished by Unit Operator to all Working Interest Owners shall be charged solely to and paid by the Working Interest Owner who requests the same.

## ARTICLE 9

### TAXES

9.1 Production Taxes. Each Working Interest Owner shall be severally liable for and shall for its own account pay or cause to be paid all production taxes imposed by the States of New Mexico and/or Texas or pursuant to their laws, or by any other lawful taxing authority upon or in respect of the share of Unitized Substances allocated to such Working Interest Owner by the terms of the Unit Agreement and/or this Unit Operating Agreement, or the production, sale or other handling of same, - regardless of the State or Tracts from which the Unitized Substances are produced. The term, production taxes, as used in this agreement shall mean and include all gross production taxes, severance taxes, gathering taxes, and other taxes upon or measured by production, handling, sale, value or proceeds of Unitized Substances; and said term shall include, without limitation, taxes imposed by the Oil and Gas Ad Valorem Production Tax Act of New Mexico, which shall not be deemed to be an ad valorem tax as that term is used in this agreement.

9.2 Ad Valorem Taxes. Unit Operator on behalf of all Working Interest Owners shall pay all ad valorem taxes becoming due and payable on account of real and personal property (or interest therein) of each Working Interest Owner within the Unit Area (and each and every part thereof) covered by this agreement or used in connection with operations under this agreement and the Unit Agreement regardless of the State or Tract in which located. The aggregate amount of all such ad valorem taxes shall be charged against and borne by all the Working Interest Owners in proportions specified below as follows:

- (1) The percentage of such ad valorem taxes on personal property which shall be considered Unit Expense shall be charged

against and borne by each respective Working Interest Owner in accordance with their respective Cost Participation. Cost Participation of the Working Interest Owners are shown in Exhibit "D", Part 2.

(2) The proportion of such ad valorem taxes on real property which shall not be considered as Unit Expense shall be charged against and borne by each respective Working Interest Owner in accordance with the decimal fractions in Exhibit "E" opposite the name of each such Working Interest Owner.

9.3 Renditions, Returns and Reports. Unit Operator shall make and file with the proper taxing authorities or governmental subdivisions all renditions, returns and reports required by law for the ad valorem taxes above mentioned. Any Working Interest Owner who is dissatisfied with any assessment of its interest in any real or personal property shall have the right, at its own expense, to protest or contest the same. Each Working Interest Owner shall promptly furnish Unit Operator with the originals or photostatic copies of all notices, assessments, tax statements and other papers received by it from taxing authorities and relating to such taxes, and upon request by Unit Operator shall furnish the latter with all information in the possession of the Working Interest Owner which may be useful to Unit Operator in handling the taxes and the settlement and accounting in respect thereto.

## ARTICLE 10

### ADJUSTMENT FOR LEASE AND WELL EQUIPMENT

10.1 Delivery of Wells and Equipment. At the effective date hereof the Working Interest Owners shall deliver to Unit Operator possession of:

10.1.1 All wells completed in the Unitized Formation, together with the casing therein, whether or not such wells are producing at the effective date.

10.1.2 All other lease and well equipment in, on or used in connection with operations of wells mentioned in Section 10.1.1, including tubing, lift equipment, pumping units, flow lines, separators, tank batteries, and other lease equipment, except the Elliott, Inc., Parcell-Federal tank battery.

10.1.3 A copy of each production and well record pertaining to a well completed in the Unitized Formation.

10.2 Inventory of Equipment. The Working Interest Owners shall appoint an inventory committee which shall take, or cause to be taken, under the supervision of Unit Operator and at Unit Expense, as of the effective date hereof and as soon thereafter as may be reasonably possible, a physical inventory of all lease and well equipment hereinabove provided to be delivered to Unit Operator. The inventory of equipment to be made pursuant to this article shall be limited to controllable material as defined in the 1960 Material Classification Manual. Each Working Interest Owner who is, or whose representative is a member of said committee, and also Unit Operator regardless of whether it or its representative is a member of the committee, shall charge the joint account and be paid or credited the sum of \$35.00 per man day for the time spent by it or its representatives in

taking and completing the inventory (including in addition, in case of Unit Operator, the supervision of same), plus actual expenses including mileage at 8¢ per mile incurred in connection therewith. At least five days before the taking of such inventory with respect to a Tract, Unit Operator shall notify the Working Interest Owner or Owners owning the Working Interest in such tract. The inventory shall be made by Tracts, and shall show for each Tract the equipment to be credited to such Tract. Each Working Interest Owner agrees to furnish Unit Operator with a list of its underground equipment prior to the taking of such inventory. The cost of taking, pricing, reproducing and mailing such inventory shall be a charge to the joint property.

10.3 Valuation of Equipment. The casing in each well which is taken over by Unit Operator shall be valued at \$2,500.00. The equipment (other than casing) included in the inventory shall be valued as provided in Section 2 of Article III of Exhibit "F".

10.4 Approval of Inventory and Valuation. Upon completion thereof, the inventory and valuation shall be submitted to the Working Interest Owners for approval. If any item of equipment (other than casing) is determined not to be needed in the conduct of operations under this agreement, such item shall be removed from the inventory and shall be returned to the party or parties who owned the same immediately prior to the effective date hereof, who shall remove the same from the Unit Area as promptly as reasonably possible, if so directed by the parties hereto.

10.5 Equipment Adjustment. Upon approval of the inventory and valuation of equipment taken over by Unit Operator, the value of each item included in the approved inventory shall be credited to the Working Interest Owner or Owners who owned the same immediately prior to the effective date hereof (such credit, if made to two or more parties, to be made to them in proportion to their respective interests) and each Working Interest Owner shall be charged with that percentage of the total valuation of all such equipment which is equal to its Cost Participation, and settlement for differences between the credits and charges to the Working Interest Owners shall thereupon be made. Such settlement shall be effected through Unit Operator, who shall invoice each Working Interest Owner charged with an amount in excess of the amount credited to it, as above provided, for the amount of such excess; and each Working Interest Owner so billed agrees to promptly pay to Unit Operator the amount of such bill received by it. The amounts so invoiced, when received by Unit Operator, shall be paid or credited to the Working Interest Owners credited with amounts in excess of the amounts charged to them, respectively, in proportion to their respective excesses of credits over charges. A sale or other transfer of Working Interest in a Tract prior to the settlement above provided for shall be deemed to transfer to the transferee of such Working Interest the credit made to, and the charge made against, the transferor, in respect of such Tract, in the adjustment above provided for.

10.6 Intangible Costs. No adjustment shall be made among the Working Interest Owners for road construction costs or for intangible costs of any kind incurred prior to the effective date hereof in respect of wells within the Unit Area, whether incurred in the installation of equipment or in drilling, completing, testing or reworking a well, or otherwise.

10.7 Warehouse, Camps and Other Facilities. The adjustment hereinabove provided for shall not include facilities such as warehouse stocks, lease

houses, camps, office buildings, water supply wells, water pressure plant and water lines necessary for operations hereunder, or any other facilities not properly classed as lease or well equipment. Such facilities may be acquired for the joint account of the parties hereto only on such terms and conditions as may be agreed upon between the owners thereof and Unit Operator, with the approval of the Working Interest Owners.

10.8 Ownership of Equipment and Other Property. All equipment included in the adjustment above provided for, and all materials, equipment, facilities and other property, the cost of which is charged to Working Interest Owners, shall be owned by them in proportion to their respective Cost Participation.

## ARTICLE 11

### UNIT EXPENSE

11.1 Payment and Charging. In the first instance, all items of Unit Expense incurred by Unit Operator shall be paid by it promptly as and when due and payable. All such Unit Expense shall be charged to Working Interest Owners in proportion to their respective Cost Participations and each Working Interest Owner shall reimburse Unit Operator for its proportionate share thereof in accordance with Exhibit "F", the provisions of which shall govern the charging, invoicing and payment of such Unit Expense. In case of a Tract included in the Unit Area on the basis of an indemnity agreement executed by Working Interest Owner or Owners in accordance with Sub-Section 13.1.2 of the Unit Agreement, the Working Interest Owner or Owners executing such indemnity agreement shall be charged with and shall pay to Unit Operator in ratio of their Cost Participations, all Unit Expense otherwise chargeable hereunder to each owner of Working Interest in such Tract who has not executed or ratified this agreement.

11.2 Budgets. Before or as soon as reasonably possible after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and a budget for the succeeding calendar year, and on or before the first day of each November thereafter Unit Operator shall prepare a budget of estimated Unit Expense for the next succeeding calendar year. Each such budget shall properly itemize the estimated Unit Expense included therein and shall set forth the estimated Unit Expense for each quarter—annual period covered thereby; unless otherwise specified in the budget, it shall be presumed for the purpose of the advance billings hereinafter provided for that the estimated Unit Expense for each month of a quarterly period is one-third of the estimate for the quarter. Such budget shall be subject to revision by Unit Operator from time to time as may be found necessary. Unit Operator shall furnish to each Working Interest Owner a copy of each such budget and a copy of any revision thereof, each of which shall be subject to correction and adjustment by the Working Interest Owners as they may determine to be proper from time to time. However, approval of a budget shall not be deemed to authorize any expenditure shown therein that is not otherwise authorized in accordance with this agreement.

11.3 Advance Billings. Unit Operator shall have the right at its election from time to time to require each Working Interest Owner to advance its proportionate share of the estimated amount of Unit Expense for any month by submitting to each Working Interest Owner, at least fifteen (15) days in advance of the beginning of such month, a properly itemized statement of such estimated amount, with a request for payment in advance. Whenever such request is made,

each Working Interest Owner shall advance to Unit Operator, on or before the first day of the month for which advance payment is requested its proportionate share of the estimated Unit Expense for such month. The amount of any advance so requested, if not paid when due, shall thereafter bear interest at the rate of six per cent (6%) per annum until paid. At the end of each month for which advance payment is requested, Unit Operator shall make proper adjustment for any difference between the estimated amount and the actual amount of Unit Expense for such month by making appropriate charges or credits to the parties hereto. Unit Operator whenever it considers it convenient to do so may include in advance billings ad valorem taxes which are chargeable to Working Interest Owners as elsewhere herein set forth, and the foregoing provisions of this Section 11.3 shall in such cases have similar application to such taxes.

11.4 Commingling of Funds. Unit Operator shall not be required to segregate funds received by it under this agreement, and such funds may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Working Interest or Interests, its interest in all jointly owned materials, equipment and other property, and its interest in all Unitized Substances produced and saved, as security for payment of its proportionate share of Unit Expense and taxes, together with interest thereon at the rate of six per cent (6%) per annum, which lien may be enforced in the same manner as a mortgage lien or in any other manner now or hereafter permitted by law. In addition, upon default by any Working Interest Owner in the payment of any invoice submitted to it by Unit Operator for its proportionate share of Unit Expense and/or taxes, or in payment of any advance requested by Unit Operator as above provided, Unit Operator shall have the right to collect and receive from the purchaser or purchasers of Unitized Substances the proceeds thereof accruing to the interest of such Working Interest Owner up to the amount owing by it, plus interest as aforesaid. Each such purchaser shall be entitled to rely upon the Unit Operator's statement concerning the existence and amount of any such default. Unit Operator shall have the right to sue for recovery of any amount owing by any Working Interest Owner that is not paid when due, plus attorneys' fees and other expenses incurred in connection with the suit, with or without foreclosure of the lien or exercising the right above granted.

11.6 Default in Payment. In the event of the neglect or failure of any Working Interest Owner to pay its proportionate part of Unit Expense incurred by Unit Operator and/or taxes within sixty (60) days after rendition of statements therefor by the Unit Operator, the other Working Interest Owners who are not in default agree after request by Unit Operator to pay to the Unit Operator in the ratio of their respective Cost Participations the unpaid Unit Expense and/or taxes of any defaulting Working Interest Owner, as follows:

11.6.1 In the event of a defaulting Working Interest Owner, Unit Operator shall collect and receive each month from the purchaser or purchasers the proceeds from sale of such defaulting Working Interest Owner's share of Unitized Substances as provided in Section 11.5.

11.6.2 In the event the proceeds of sale of such Working Interest Owner's share of Unitized Substances is insufficient to reimburse Unit Operator for such defaulting Working Interest

Owner's share of the Unit Expense incurred hereunder by Unit Operator and taxes, the Working Interest Owners who are not in default agree to pay Unit Operator in the ratio of their respective Cost Participations each month, such Unit Expense and taxes for which Unit Operator was not reimbursed by the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances.

11.6.3 Upon the payment to and receipt by the Unit Operator of any past due amounts owing by any such defaulting Working Interest Owner which has been previously paid by other Working Interest Owners, or in the event the proceeds received by Unit Operator from the sale of such defaulting Working Interest Owner's share of Unitized Substances during any month is in excess of the amount of such defaulting Working Interest Owner's share of Unit Expense for such month, taxes and the unsatisfied portions of such items for prior months, Unit Operator shall reimburse the Working Interest Owners for their pro rata share of the amounts paid by them to Unit Operator. Such reimbursement shall include each party's pro rata share of any interest collected from a defaulting Working Interest Owner by Unit Operator.

11.6.4 Any Working Interest Owner so advancing a defaulting Working Interest Owner's Unit Expense and/or taxes shall be subrogated to the lien and rights appurtenant thereto herein given Unit Operator.

11.7 Adjustments on Uncommitted Interests. In case of each royalty or working interest in any Tract in the Unit Area which interest is not effectively committed to the Unit Agreement, the following adjustment shall be made in respect of differences between the amount of actual production of oil and gas from the San Andres (as defined in the Unit Agreement) in the Tract accruing to the uncommitted interest and the amount accruing thereto computed on the basis of the quantity of production allocated to the Tract as provided in the Unit Agreement. (a) Any excess of the amount payable for any month computed on the basis of actual production, over the amount computed on the basis of the allocated production shall be paid to the owner of the uncommitted interest by the owners of the effectively committed Working Interests in the Tract, and Unit Operator shall reimburse the latter for the amount of the excess so paid, and such reimbursement shall be treated and charged as Unit Expense; and (b) any excess of the amount payable for any month computed on the basis of the allocated production, over the amount computed on the basis of actual production shall be paid by the owners of the effectively committed Working Interests in the Tract to Unit Operator for credit of all Working Interest Owners in proportion to their respective Cost Participations.

11.8 Audits. Unit Operator's records and books of account shall be audited only at such times and in such manner as may be directed by a majority in Voting Interest of Working Interest Owners (other than the Working Interest Owner who is Unit Operator) from time to time, except that such audits shall not be made more frequently than at intervals of twelve (12) months unless made upon the resignation or removal of Unit Operator. The cost of each such audit shall be borne by the Working Interest Owners other than the one who is Unit Operator in the ratio of their respective Cost Participations.

11.9 Non-Participation in Expenditures by a Working Interest Owner. Unit Operator shall submit for approval by the Working Interest Owners an Authority

for Expenditure covering the expenditures contemplated to be made under the initial plan of operation and when the initial Authority for Expenditure has been approved by the Working Interest Owners, Unit Operator shall proceed to carry out such plan of operation and is authorized to make the expenditures contemplated. After the initial plan of operation has been accomplished, should the Working Interest Owners vote (by the required percentage vote) for any additional expenditure in the gross amount of \$50,000.00 or more, then any Working Interest Owner who does not desire to participate in, and who has not voted for, such expenditure shall have the right to notify Unit Operator in writing of its desire not to so participate, - such notice to be delivered to Unit Operator within twenty (20) days after the vote. Each Working Interest Owner or Owners delivering such notice will be hereinafter referred to as a "Non-Participating Owner". In each such instance, the other Working Interest Owners who have not delivered such notice, herein referred to as "Participating Owners" shall have the right at their sole cost, expense and liability to proceed with the matter or project and to make the expenditure in question. And the Participating Owners shall be entitled to receive all of the Unitized Substance (including oil in storage tanks at the time next below specified) accruing to the total Unit Participation of each Non-Participating Owner under the entire Unit Area, and which is produced or run from the Unitized Formation from and after 7:00 o'clock A.M. on the first day of the calendar month next following the giving of the notice by the Non-Participating Owner to Unit Operator, until Participating Owners shall have received from proceeds of each Non-Participating Working Interest Owner's share of Unitized Substances after deducting severance, production, ad valorem and like taxes applicable thereto an amount equal to 200 per cent of such Non-Participating Owner's proportionate share of the full amount of the expenditure in question, together with 100 per cent of such Non-Participating Owner's proportionate share of the cost of operation of, or relating to, the entire Unitized Formation during such time, - all of such costs to be determined in accordance with the provisions of Exhibit "F" attached hereto. Immediately after the Participating Owners have recovered out of proceeds of production of Unitized Substances the amount of money as above provided in this Article 11.9, the Non-Participating Owner shall become entitled to again receive its share of the Unitized Substances. No Working Interest Owner who fails to give the written notice to Unit Operator within the time above specified therefor shall have the right to be a Non-Participating Owner as above provided, and shall be required to participate in the expenditure in question. The production of Unitized Substances which would have accrued to the Non-Participating Owners during the payout period above specified shall be owned and shared by the Participating Owners in proportion to their respective Unit Participations, that is, in the proportion that the Unit Participation of each bears to the total of the Unit Participation of all of them.

## ARTICLE 12

### NON-UNITIZED FORMATIONS

12.1 Right to Operate. This agreement shall not affect the right of any Working Interest Owner to conduct operations in search of or for the production of oil, gas or other minerals from any formation underlying the Unitized Land other than the Unitized Formation, except that such operations shall be conducted in such manner as to prevent unnecessary or unreasonable interference with the conduct of operations under this agreement. If any Working Interest Owner drills any well into or through the Unitized Formation, such party shall case or otherwise seal off the Unitized Formation in such manner as to protect the Unitized Formation and the production of Unitized Substances, none of which shall be produced through such well.

12.2 Dually Completed Wells. After the effective date hereof, no well completed for production from the Unitized Formation shall be completed in a formation other than the Unitized Formation for operation as a dually completed well.

### ARTICLE 13

#### TITLES

13.1 Title Representation and Indemnification. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "D" and hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided however, that such indemnity shall be limited to an amount equal to the net proceeds that shall have been received by the indemnifying Working Interest Owner from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will be effective, insofar as this agreement is concerned, as of 7:00 o'clock A.M. on the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of Unit Expense, taxes, or Unitized Substances or the proceeds therefrom as a result of title failure, except the indemnity above specified.

13.2 Loss of Title Because of Unit Operations. If the title of any Working Interest Owner hereto to all or any part of its interest in a Tract is lost because of operations conducted pursuant to the Unit Agreement or this agreement (including but not limited to the cessation of production from such Tract after the effective date) such loss shall be shared by all of the Working Interest Owners hereto in the ratio of their respective Cost Participations. Such loss shall not reduce the Cost Participation of such Working Interest Owner. To the extent that such loss of title results in the reduction of the share of Unitized Substances accruing to such Working Interest Owner such reduction shall be made up by all the Working Interest Owners hereto in the ratio of their respective Cost Participations.

### ARTICLE 14

#### CLAIMS AND SUITS

14.1 Settlement or Defense. In the event claim is made against any Working Interest Owner or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Working Interest Owners shall assume and take over the further handling, settling or otherwise discharging such claim or suit, and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unit Area; except as otherwise provided in the Unit Agreement and/or this agreement. The foregoing exception, without limitation, will include the provisions of Article 13 of the Unit Agreement and Section 11.6 of this agreement relating to indemnity given by certain Working Interest Owners in certain instances of non-joinder by a Working Interest Owner; provisions of Section 13.1 hereof (Title



Representation and Indemnification); and provisions of Section 11.7 hereof (Adjustment on Uncommitted Interests).

14.2 Notice of Claim. Unit Operator shall inform the Working Interest Owners of each claim or suit arising out of operations hereunder promptly after Unit Operator receives notice thereof, excepting however, claims, or suits that are settled by Unit Operator in accordance with the authority hereinbefore conferred upon it.

## ARTICLE 15

### RELATIONSHIP OF PARTIES

15.1 Individual Rights and Obligations. The rights, duties, obligations and liabilities of the parties hereto shall be individual and several, and not joint or collective. Each Working Interest Owner shall be responsible only for its obligations as set out herein, and shall be liable only for its proportionate share of the costs, expenses, taxes, losses and liabilities as herein stipulated. It is agreed that it is not the purpose or intention of this agreement to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership relation, joint venture, trust, or association.

## ARTICLE 16

### NOTICES

16.1 Except as otherwise specified herein, each notice given pursuant to this agreement shall be given in writing as follows: (a) By United States mail or by telegraph with postage or charges prepaid, properly addressed to each party to whom given at such party's address set forth below its signature to this agreement or its ratification or consent hereto; or (b) By personal delivery to the party to whom the notice is to be given, provided that if delivered to a corporate party, the notice shall be delivered personally to an executive officer of such party, subject to provisions of (c) below; or (c) In case of each Working Interest Owner who shall designate a representative and/or alternate representative as specified in Section 5.2 hereof, the notice may be given either by personal delivery to such a representative or alternate representative or by mailing or telegraphing (with postage or charges prepaid) the same to such representative or alternate representative at his address specified in the designation made by the Working Interest Owner. Each notice given by mail or telegraph as above provided shall be deemed given 48 hours after such notice is deposited in the United States mail or 24 hours after it is filed with an operating telegraph company for immediate transmission by telegraph. Any party hereto may change the address to which notices for it may be sent, by appropriate written notice to Unit Operator, provided that the notice of such change of address of Unit Operator shall be given by the latter to all other parties hereto. Notice given in the manner above specified, to the husband of any married woman who executes this agreement, shall also constitute notice to her.

## ARTICLE 17

### WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner desires, it may with-

draw from this agreement by conveying, assigning and transferring with special warranty only, to the other Working Interest Owners, all of the former's rights, titles and interests (a) in its Working Interests, and in its lease or leases or other operating rights insofar as same pertain to the Unitized Formation; (b) in and accruing under the Unit Agreement and this Operating Agreement to it as a Working Interest Owner; and (c) its interest in all wells, pipelines, casing, injection equipment, facilities, personal property of every kind, and jointly owned real property if any which may have been acquired for joint account of the Working Interest Owners, held or used in connection with operations hereunder; provided (1) that such withdrawal shall not relieve said Working Interest Owner from any obligation or liability incurred prior to execution and delivery of the assignment; and (2) that a Working Interest Owner who is charged with any excess in the adjustment provided for in Section 10.5 hereof shall not have the right to withdraw until it has paid the same to Unit Operator; and (3) that unless the other Working Interest Owners otherwise agree, a Working Interest Owner may not withdraw if its interest (or any of its interests if more than one) is burdened by any royalties, overriding royalties or other burdens in excess of a 1/8th lessor's royalty after application of usual proportionate reduction for fractional interests. The interest so transferred shall be taken and owned and the payment specified below made by the other Working Interest Owners in the ratio of their respective Cost Participations. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement, and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in the jointly owned personal property and equipment of every kind so assigned, the salvage value of the assignor's interest therein, such salvage value to be determined and fixed by Working Interest Owners on the basis of the above ground fair market value of such personal property and equipment less the reasonably estimated cost of salvaging same, which amount shall be full consideration to the assigning Working Interest Owner for said assignment. Any transfer or assignment made under this Section 17.1 which covers rights under a Federal lease as to the Unitized Formation shall be in such form of assignment, operating agreement or other instrument as will meet with approval of the Secretary. The above provisions of this Section shall not be construed to prevent any Working Interest Owner from selling and assigning its interest to any purchaser or assignee (whether or not a party to this agreement) for such consideration as may be acceptable to the assigning Working Interest Owner, nor as creating any preferential right to purchase if a Working Interest Owner desires to so sell or assign its interest - as distinguished from exercise of its right of withdrawal as above provided.

## ARTICLE 18

### ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of sixty (60) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the

Unitized Formation. Within ten (10) days after said Working Interest Owners have so notified Unit Operator of their desire to take over such well, they shall pay to Unit Operator, for credit to the joint account of all Working Interest Owners in proportion to their respective Cost Participations, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the casing and equipment in and on said well after deducting the reasonably estimated cost of salvaging same. At the same time the Working Interest Owners taking over the well shall agree by letter addressed to Unit Operator to effectively seal off and protect the Unitized Formation, and at such time as the well is ready for abandonment to plug and abandon the well in a workmanlike manner in accordance with applicable laws; and such Working Interest Owners shall acquire no interest in the Unitized Formation by taking over such well.

18.2 Plugging. In the event the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws, — the cost of same to be treated as Unit Expense.

## ARTICLE 19

### TERM OF AGREEMENT

19.1 Effective Date. This agreement shall become effective on the date and at the same time Unit Agreement becomes effective.

19.2 Term. This agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20 hereof, and all personal and real property (if there should be any real property) acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners and there has been a final accounting and settlement between the parties hereto.

## ARTICLE 20

### ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Possession of all oil and gas rights in and to the several separate Tracts shall revert to the Working Interest Owners thereof.

20.1.2 Right to Operate. Working Interest Owners of any such Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the well or wells after deducting the reasonably estimated cost of salvaging same and by agreeing to properly plug the same at such time as it is abandoned.

20.1.3 Salvaging Wells and Equipment. With respect to all wells

not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in and on such wells as can economically and reasonably be salvaged and shall cause the same to be properly plugged and abandoned and shall likewise salvage all jointly owned material and equipment located upon the Unit Area all of which shall be disposed of in such manner as may be determined by the Working Interest Owners.

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

## ARTICLE 21

### TRANSFERS OF INTEREST

21.1 Successors and Assigns. The provisions of this Agreement shall constitute covenants running with the lands and leases covered hereby, and shall be binding upon and inure to the benefits of the heirs, devisees, legal representatives, successors and assigns of the Working Interest Owners respectively. Each assignment or other transfer of Working Interest by any Working Interest Owner shall be made expressly subject to this agreement and shall provide expressly that the transferee shall assume and be bound by all obligations accruing hereunder in respect of the Working Interest transferred from and after the assignment or other transfer.

21.2 Notice of Transfers. An assignment or other transfer of Working Interest that is subject to this agreement shall not be binding upon Unit Operator, and shall not relieve the transferor of obligations accruing hereunder, prior to the first day of the calendar month next succeeding receipt by Unit Operator of written notice thereof, accompanied by certified copy of the recorded instrument evidencing the transfer.

## ARTICLE 22

### COUNTERPARTS AND RATIFICATIONS

22.1 Counterparts. This agreement and ratification of same may be executed in any number of counterparts and all executed counterparts hereof shall be deemed to constitute a single instrument binding upon every party executing any such counterpart with the same force and effect as if all parties who execute counterparts had joined in the execution of the same counterpart.

22.2 Ratification. This agreement may be ratified by a separate instrument or instruments in writing. Each party who executes any such ratification shall be deemed a party hereto, with the same force and effect as if it had executed a counterpart hereof.

## ARTICLE 23

### RENEWAL AND EXCHANGE LEASES

23.1 Every renewal or exchange lease issued as a renewal or of exchange

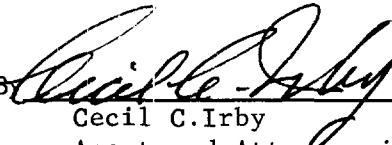
of any Federal lease covering any part of the Unit Area shall be subject to the terms and provisions of this agreement in the same manner and to the same extent as the lease so renewed or extended.

IN WITNESS WHEREOF, this agreement has been executed by the undersigned parties on the dates indicated opposite their respective signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

SOHIO PETROLEUM COMPANY

DATE September 9, 1963

By   
Cecil C. Irby  
Agent and Attorney in Fact

ADDRESS 970 First National Office Building  
Oklahoma City, Oklahoma 73102

STATE OF OKLAHOMA     )  
                              )  
COUNTY OF OKLAHOMA    )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared CECIL C. IRBY known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said SOHIO PETROLEUM COMPANY, an Ohio Corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by CECIL C. IRBY, Agent and Attorney in Fact of SOHIO PETROLEUM COMPANY, an Ohio Corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 9th day of SEPTEMBER, A.D. 1963.

My Commission Expires:

September 6, 1965



Notary Public in and for Oklahoma County,  
Oklahoma.

RATIFICATION AND JOINDER TO THE  
LITTMAN SAN ANDRES UNIT OPERATING AGREEMENT,  
LEA COUNTY, STATE OF NEW MEXICO, AND ANDREWS COUNTY,  
STATE OF TEXAS, DATED SEPTEMBER 9, 1963

For the consideration stated in the above described Unit Operating Agreement, each of the undersigned hereby ratifies, confirms and joins in the execution of said Unit Operating Agreement which is hereby incorporated herein and made a part hereof, to the same extent and effect as if the undersigned had executed the original of said Unit Operating Agreement.

The undersigned acknowledges receipt of a copy of said Unit Operating Agreement and acknowledges that no representations not incorporated herein or in said Unit Operating Agreement have been made to the undersigned and that this instrument has been signed and delivered unconditionally.

WORKING INTEREST OWNERS

DATE \_\_\_\_\_

\_\_\_\_\_

ADDRESS \_\_\_\_\_

\_\_\_\_\_

DATE \_\_\_\_\_

\_\_\_\_\_

ADDRESS \_\_\_\_\_

\_\_\_\_\_

ATTEST:

By \_\_\_\_\_

President

\_\_\_\_\_

ADDRESS \_\_\_\_\_

DATE \_\_\_\_\_

\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ and \_\_\_\_\_, his wife, both known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they each executed the same for the purposes and consideration therein expressed, and the said \_\_\_\_\_, wife of the said \_\_\_\_\_, having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said \_\_\_\_\_, acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ and \_\_\_\_\_, his wife.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_



STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said \_\_\_\_\_, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated; and the foregoing instrument was acknowledged before me this day by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_  
County, \_\_\_\_\_.

EXHIBIT "D" PART 1

LITTMAN SAN ANDRES UNIT OPERATING AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

<u>Tract No.</u>	<u>Ownership of Working Interest</u>	<u>Working Interest In Tract Oil</u>	<u>Tract Participation</u>
1	Broseco Corporation John B. Rich Sohio Petroleum Company	.1979167 .0104166 .7916667	03.60701%
2	Elliott, Inc.	1.0000000	02.32066%
3	Elliott, Inc.	1.0000000	14.38601%
4	Broseco Corporation John B. Rich Sohio Petroleum Company	.2770834 .0145833 .7083333	06.66266%
5	Broseco Corporation J. G. Catlett Co. Kirby Production Company John B. Rich Sohio Petroleum Company	.2461179 .0405401 .0712149 .0129536 .6291735	00.82290%
6	Martha Jane Anthony Broseco Corporation Delhi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company	.0131250 .1781250 .0625000  .1875000 .0131250 .0131250 .0131250 .0093750 .5000000	20.16509%
7	Broseco Corporation Delhi Taylor Oil Corporation John B. Rich Shell Oil Company Sohio Petroleum Company	.1187500 .0625000 .0062500 .5000000 .3125000	35.67109%

EXHIBIT "D" PART 1  
(Continued)

<u>Tract No.</u>	<u>Ownership of Working Interest</u>	<u>Working Interest In Tract Oil</u>	<u>Tract Participation</u>
8	Martha Jane Anthony Broseco Corporation Delhi Taylor Oil Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company	.0156250 .1781250 .0625000  .1875000 .0156250 .0156250 .0156250 .0093750 .5000000	07.84198%
9	Broseco Corporation C. S. Longcope John B. Rich Sohio Petroleum Company	.2761673 .0033058 .0145351 .7059918	01.46833%
10	Martha Jane Anthony Broseco Corporation Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979 Margery Ann Hodges Obie P. Leonard, Jr. R. W. Leonard John B. Rich Sohio Petroleum Company	.0156250 .1979167  .1875000 .0156250 .0156250 .0156250 .0104167 .5416666	02.17480%
11	Broseco Corporation J. G. Catlett Co. Cities Service Oil Company Kirby Production Company C. S. Longcope John B. Rich Sohio Petroleum Company	.1582291 .0304869 .3333333 .0217629 .0033058 .0088543 .4340277	04.87947%

EXHIBIT "D" PART 2

LITTMAN SAN ANDRES UNIT OPERATING AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

<u>Working Interest Onwers</u>	<u>Tract No.</u>	<u>Decimal Working Interest In Tract (Oil)</u>	<u>Tract Participation Credited Per Sec. 4.1</u>	<u>Cost Participation</u>
Martha Jane Anthony	6	.0131250	20.16509%	00.31508%
	8	.0156250	07.84198	00.12253
	10	.0156250	02.17480	00.03398
				<u>00.47159%</u>
Broseco Corporation	1	.1979167	03.60701%	00.71389%
	4	.2770834	06.66266	01.84611
	5	.2461179	00.82290	00.20253
	6	.1781250	20.16509	03.59191
	7	.1187500	35.67109	04.23595
	8	.1781250	07.84198	01.39685
	9	.2761673	01.46833	00.40550
	10	.1979167	02.17480	00.43043
	11	.1682291	04.87947	00.82087
				<u>13.64404%</u>
J. G. Catlett Co.	5	.0405401	00.82290%	00.03336%
	11	.0304869	04.87947	00.14876
				<u>00.18212%</u>
Cities Service Oil Company	11	.3333333	04.87947%	<u>01.62650%</u>
Delhi Taylor Oil Corporation	6	.0625000	20.16509%	01.26032%
	7	.0625000	35.67109	02.22944
	8	.0625000	07.84198	00.49012
				<u>03.97988%</u>
Elliott, Inc.	2	1.0000000	02.32066%	02.32066%
	3	1.0000000	14.38601	14.38601
				<u>16.70667%</u>
Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979	6	.1875000	20.16509%	03.78096%
	8	.1875000	07.84198	01.46036
	10	.1875000	02.17480	00.40778
				<u>05.65910%</u>
Margery Ann Hodges	6	.0131250	20.16509%	00.31508%
	8	.0156250	07.84198	00.12253
	10	.0156250	02.17480	00.03398
				<u>00.47159%</u>
Kirby Production Company	5	.0712149	00.82290%	00.05861%
	11	.0217629	04.87947	00.10619
				<u>00.16480%</u>

EXHIBIT "D" PART 2  
(Continued)

<u>Working Interest Owners</u>	<u>Tract No.</u>	<u>Decimal Working Interest In Tract (Oil)</u>	<u>Tract Participation Credited Per Sec. 4.1</u>	<u>Cost Participation</u>
Obie P. Leonard, Jr.	6	.0131250	20.16509%	00.31508%
	8	.0156250	07.84198	00.12254
	10	.0156250	02.17480	<u>00.03398</u>
				00.47160%
R. W. Leonard	6	.0131250	20.16509%	00.31508%
	8	.0156250	07.84198	00.12254
	10	.0156250	02.17480	<u>00.03398</u>
				00.47160%
C. S. Longcope	9	.0033058	01.46833%	00.00485%
	11	.0033058	04.87947	<u>00.01613</u>
				00.02098%
John B. Rich	1	.0104166	03.60701%	00.03757%
	4	.0145833	06.66266	00.09716
	5	.0129536	00.82290	00.01066
	6	.0093750	20.16509	00.18905
	7	.0062500	35.67109	00.22294
	8	.0093750	07.84198	00.07352
	9	.0145351	01.46833	00.02134
	10	.0104167	02.17480	00.02265
	11	.0088543	04.87947	<u>00.04320</u>
				00.71809%
Shell Oil Company	7	.5000000	35.67109%	<u>17.83554%</u>
Sohio Petroleum Company	1	.7916667	03.60701%	02.85555%
	4	.7083333	06.66266	04.71938
	5	.6291735	00.82290	00.51775
	6	.5000000	20.16509	10.08255
	7	.3125000	35.67109	11.14722
	8	.5000000	07.84198	03.92099
	9	.7059918	01.46833	01.03663
	10	.5416666	02.17480	01.17801
	11	.4338477	04.87947	<u>02.11782</u>
				37.57590%

EXHIBIT "E"

LITTMAN SAN ANDRES UNIT OPERATING AGREEMENT  
LITTMAN SAN ANDRES UNIT  
LITTMAN SAN ANDRES FIELD  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

<u>Working Interest Owner</u>	<u>TAX PARTICIPATION</u>	
	<u>Ad Valorem Taxes - Real Property</u>	
	*	**
Martha Jane Anthony	.0047900	.0047297
Broseco Corporation	.1342011	.1359424
J. G. Catlett Co.	.0019921	.0019670
Cities Service Oil Company	.0177915	.0175671
Delhi Taylor Oil Corporation	.0435344	.0429852
Elliott, Inc.	.1772846	.1750482
Fort Worth National Bank of Fort Worth, Texas, Trustee Account No. 1979	.0325809	.0321699
Margery Ann Hodges	.0047902	.0047296
Kirby Production Company	.0018026	.0017799
Obie P. Leonard, Jr.	.0047900	.0047270
R. W. Leonard	.0047901	.0047270
C. S. Longcope	.0002295	.0002267
John B. Rich	.0070632	.0071549
Shell Oil Company	.1950959	.1926348
Sohio Petroleum Company	<u>.3692639</u>	<u>.3736106</u>
	1.0000000	1.0000000

\* When production is greater than  
35 BO per well per day.

\*\* When production is less than  
35 BO per well per day.

NOTE: This tax is assessed on the net oil production accruing to each Working Interest Owner. This exhibit is derived from Exhibit "B" and is based on the proportion that each Working Interest Owner's Unit Participation as to oil bears to the total of the Unit Participation as to oil of all Working Interest Owners.

## EXHIBIT "F"

Attached to and made a part of  
UNIT OPERATING AGREEMENT  
Littman-San Andres Unit, Littman-San Andres Field  
Lea County, New Mexico - Andrews County, Texas

### 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 Subparagraph C below:

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

B. Statement of all charges and credits to the joint account, summarized by appropriate classification 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.

EXHIBIT "F"  
(Continued)

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 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 the joint property.
- B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2A and Paragraph 11 of this Section II.



EXHIBIT "F"  
(Continued)

Costs under this Subparagraph 2B may be charged on a "when and as paid basis" or by "Percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2A 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 Subparagraph 2A, 2B, 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.
- 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.

EXHIBIT "F"  
(Continued)

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 herein 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.

EXHIBIT "F"  
(Continued)

- 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 service, 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 District Office located at or near Midland, Texas (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, and shall not exceed \$75.00 per month for each producing well and a drilling well shall be equivalent to eight 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)

<u>Well Depth</u>	<u>Drilling Well</u>	<u>Producing Well Rate</u> <u>(Use Completion Depth)</u>		
	<u>Rate</u>	<u>All Wells</u>		
	<u>Each Well</u>	<u>First Five</u>	<u>Next Five</u>	<u>Over Ten</u>
Unitized Formation	\$200.00	\$35.00 per well per month		

- 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.

EXHIBIT "F"  
(Continued)

- B. In connection with overhead charges, the status of wells shall be as follows:
- (1) Injection wells for recovery operations, such as for repressuring or water flood, shall be included in the overhead schedule the same as producing oil wells.
  - (2) Water supply wells utilized for waterflooding 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.
  - (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.

EXHIBIT "F"  
(Continued)

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 materials such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on carload 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 suit-

EXHIBIT "F"  
(Continued)

able 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 reconditioningshall 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.

EXHIBIT "F"  
(Continued)

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.
- 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.

EXHIBIT "F"  
(Continued)

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.



EXHIBIT "G"

ATTACHED TO AND MADE A PART OF  
UNIT OPERATING AGREEMENT  
LITTMAN SAN ANDRES UNIT, LITTMAN SAN ANDRES FIELD,  
LEA COUNTY, NEW MEXICO - ANDREWS COUNTY, TEXAS

INSURANCE TO BE PROVIDED BY THE  
OPERATOR FOR THE JOINT ACCOUNT

At all times during the conduct of operations hereunder, Operator shall maintain in force the following insurance:

- A. Operator shall comply with the Workmen's Compensation laws of the state in which operations hereunder are conducted, either by maintaining in force Workmen's Compensation Insurance or by qualifying as a self-insurer. If Operator carries Workmen's Compensation Insurance, the premium cost thereof in respect of employees engaged in operations hereunder shall be charged to the joint account. During any time when Operator is qualified as a self-insurer for Workmen's Compensation purposes, Operator shall be entitled to charge the joint account an amount equal to the premium cost that would be incurred for Workmen's Compensation Insurance, if carried, on the basis of manual rates, in respect of employees engaged in operations hereunder, and any and all Workmen's Compensation losses and expenses (including the cost of investigating and litigating claims), shall be borne entirely by Operator.
- B. Public Liability and Property Damage Insurance and Automobile Insurance with limits not less than \$100,000 per person and \$300,000 per accident on bodily injury to or death of persons and not less than \$100,000 per accident on loss of or damage to property.

All premiums paid on such insurance shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account and all losses not covered by such insurance shall be charged to the joint account and each drilling or other contractor performing work for the joint account shall be required to maintain in force, with respect to work performed by such contractor, the same insurance; and whenever Operator performs a drilling or reworking operation for the joint account with its own equipment, Operator at its own expense, shall provide the same insurance coverage in respect thereof as would be required if the work were performed by an independent contractor.

EXHIBIT "F"  
(Continued)

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 price.

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 3B, 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.

EXHIBIT "F"  
(Continued)

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.