

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES
SITTING BULL UNIT AGREEMENT
Eddy County, New Mexico

act	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty		Working Interest	
							Owner and Percentage	Percentage	Owner and Percentage	Percentage
	T-23-S, R-22-E Section 31: Lots 1,2, 3,5,6,7, E/2 NW/4 NE/4 SW/4, N/2 SE/4, & NE/4	546.75	NM 036723 10/2/72	U.S.A. All	FEDERAL LANDS Cities Service Oil Company	All	Neil H. Wills & Mary E. Wills, his wife Box 529, Carlstad, New Mexico	3%	Cities Service Oil Company	All
I.	T-23-S, R-22-E Section 31: Lot 4	22.93	NM 036723-B 10/2/72	U.S.A. All	Cities Service Oil Company	All	Neil H. Wills & Mary E. Wills, his wife Box 529, Carlstad, New Mexico J. V. Fritts & Ruth C. Fritts, his wife Box 868, Roswell New Mexico	3%	Cities Service Oil Company	All
	T-23-S, R-22-E Section 33: Lot 8, W/2 NE/4, N/2 NW/4, SW/4 NW/4	232.53	NM 0150421 10/2/72	U.S.A. All	Union Oil Company of California	All	Gerald T. Tresner & Amy Tresner, his wife 910 Midland Savings Bldg., Denver, Colorado	4%	Union Oil Company of California	All
	T-24-S, R-22-E Section 7: Lots 1,2,3,4, E/2 W/2, NE/4, W/2 SE/4	555.08	NM 0425718 12/31/73	U.S.A. All	Bell Petroleum Company	All	None		Bell Petroleum Company	All
	T-24-S, R-22-E Section 5: All	642.60	NM 0553768 8/31/74	U.S.A. All	Cities Service Oil Company	All	None		Cities Service Oil Company	All
	T-23-S, R-22-E Section 29: SW/4 & W/2 NW/4	240.00	NM 0555271 1/31/75	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Company)	All	W. B. Hoffhine Box 2042 Casper, Wyoming	3%	Inexco Oil Company	All
	T-23-S, R-22-E Section 32: Lots 1,2,3,4, N/2, N/2 S/2	633.52	NM 0555753 2/28/75	U.S.A. All	Cities Service Oil Company	All	E. L. Hodges & Edith J. Hodges Box 336 Roswell, New Mexico	2%	Cities Service Oil Company	All

7.	<u>T-24-S, R-22-E</u> Section 6: Lots 1,2, 3,4,5,6,7, S/2 NE/4, SE/4 NW/4, E/2 SW/4, SE/4	636.43	NM 0555754 2/28/75	U.S.A. All	W. H. Hunt	All	None	W. H. Hunt	All
8.	<u>T-23-S, R-22-E</u> Section 33: Lot 14	37.53	NM 5437 7/31/78	U.S.A. All	Cities Service Oil Company	All	M.A. Barton & R.M. Barton, her husband 5% Box 2166 Santa Fe, New Mexico	Cities Service Oil Company	All
9.	<u>T-23-S, R-22-E</u> Section 9: SW/4	160.00	NM 8242 A 1/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	Thelma F. Desnet 4% 1631 12th Ave. Sacramento, California	Inexco Oil Company	All
10.	<u>T-23-S, R-22-E</u> Section 33: Lots 9,10, 11,12,13 & 15	104.67	NM 9533 7/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	William H. Short, Jr. 4% & Rita Short, his wife; & Franklin Knobel & Norma Knobel, his wife	Inexco Oil Company	All
11.	<u>T-24-S, R-22-E</u> Section 4: Lots 1,2,3,4, S/2 N/2, S/2	642.80	NM 9534 A 7/31/79	U.S.A. All	Cities Service Oil Co.	All	M. N. Hahn & Charlotte Hahn, his wife, 185 Oaklark Rd., Oil Company Bakersfield, Calif. 2% C.E. Strange & Sherrie R. Strange 2%	National Resources All Corp. & King Resources Co.	All
12.	<u>T-24-S, R-22-E</u> Section 9: NE/4	160.00	NM 9534 B 7/31/79	U.S.A. All	Natural Resources Corp. & King Resources Co.	All	M.N. Hahn & Charlotte Hahn, his wife; 2% C.E. Strange & Sherrie Strange, his wife 2%	National Resources All Corp. & King Resources Co.	All
13.	<u>T-23-S, R-22-E</u> Section 33: Lots 1,2, 5,6,7,15	241.40	NM 9802 7/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	A.W. Rutter, Jr. and wife, Virginia S. 2% Rutter and Wilbanks Corp. 3% 500. N. Big Spring St. Midland, Texas 79701	Inexco Oil Company All	All
14.	<u>T-24-S, R-22-E</u> Section 7: E/2 SE/4	80.00	NM 10885 2/29/80	U.S.A. All	Union Oil Company of California	All	Rita Short & husband, Wm. H. Short and Lee Gray & wife, Bobbie Gray 3%	Union Oil Company All of California	All

15.	T-24-S, E-22-W Section 8: All Section 9: NW/4 & SE/4	960.00	NM 11100 3/31/80	U.S.A. All	Chalfant, Magee & Hansen, All Inc. (Assigned to Inexco Oil Co.)	Julius W. Rakvic 5% and wife, Thelma Rakvic 1726 Lincoln Highway, N. Versailles, Pennsylvania	Inexco Oil Company	All
16.	T-23-S, E-22-E Section 28: Lots 1,2,3,4, W/2 E/2, W/2 Section 33: Lot 17	668.24	NM 12389 10/31/80	U.S.A. All	Chalfant, Magee & Hansen, All Inc. (Assigned to Inexco Oil Co.)	Franklin, Aston & Fair, Inc., Box 1090, Roswell, New Mexico 2% Howell Spear Box 96, Hobbs, N.M. 2% Jack Grynberg & Celeste Grynberg, 1% his wife 750 Petroleum Club Bldg., Denver, Colo.	Inexco Oil Company	All
17.	T-23-S, E-22-E Section 29: E/2 & E/2 NW/4	400.00	NM 14111 A 9/30/81	U.S.A. All	Chalfant, Magee & Hansen, All Inc. (Assigned to Inexco Oil Co.)	Sherman Nelson & Jon Nelson, Seguin, Texas 10% of 4% Ben M. Patterson, Jr. & wife, Donna Patterson 1802 NBC Bldg. 90% of 4% San Antonio, Texas	Inexco Oil Company	All

6,964.54 Acres in Unit

CONSENT AND RATIFICATION
SITTING BULL UNIT AND UNIT OPERATING AGREEMENT
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Sitting Bull Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 7th day of August, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Sitting Bull Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: SEP 20 1972

ADDRESS: CITIES SERVICE OIL COMPANY

P. O. Box 300

By Wiley C Hill

Tulsa, Oklahoma 74102

Wiley C. Hill Attorney-in-Fact

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this day of , 1972 by

My Commission Expires: Notary Public

STATE OF Oklahoma)
COUNTY OF TULSA) ss.

The foregoing instrument was acknowledged before me this 20th day of September, 1972 by Wiley C. Hill Attorney-in-Fact of CITIES SERVICE OIL COMPANY, a Corporation, on behalf of said Corporation.

My Commission Expires: JUL 25 1976

Evelyn M. Schultz Notary Public

CONSENT AND RATIFICATION
SITTING BULL UNIT AND UNIT OPERATING AGREEMENT
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

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IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

BELL PETROLEUM COMPANY

DATE: September 15, 1972

By R. J. Tingle President

ATTEST: D. M. Salzman
~~XXXXXXXX~~ Vice President

16633 Ventura Blvd., Suite 700
Encino, California 91316

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1972 by _____.

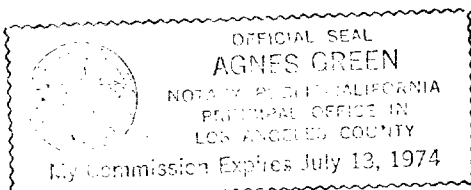
My Commission Expires: _____ Notary Public

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.

The foregoing instrument was acknowledged before me this 15th day of September, 1972 by R.J. Tingle,
President of BELL PETROLEUM COMPANY, a
California Corporation, on behalf of said Corporation.

My Commission Expires: July 13, 1974

Agnes Green
Notary Public



CONSENT AND RATIFICATION
SITTING BULL UNIT AND UNIT OPERATING AGREEMENT
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

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IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: Sept 22 1972
ADDRESS: P. O. Box 3100
Midland, Texas 79701

UNION OIL COMPANY OF CALIFORNIA
By: Samuel C. Gray
Attorney-in-Fact AB

EVIDENCE OF AUTHORITY OF ATTORNEY-
IN-FACT IS FILED IN NM-8558400
AND SUCH AUTHORITY IS STILL IN EFFECT

STATE OF _____)
COUNTY OF _____) ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 1972 by _____.

My Commission Expires: _____

Notary Public

STATE OF TEXAS,)
COUNTY OF MIDLAND.) ss.

The foregoing instrument was acknowledged before me this 22nd day of September, 1972 by Samuel C. Gray, Attorney-in-Fact of UNION OIL COMPANY OF CALIFORNIA, a Corporation, on behalf of said Corporation.

My Commission Expires: June 1, 1973

John W. Sloan
Notary Public

CONSENT AND RATIFICATION
SITTING BULL UNIT AND UNIT OPERATING AGREEMENT
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Sitting Bull Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 7th day of August, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Sitting Bull Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth opposite the signature.

DATE: August 11, 1972

W. H. Hunt
W. H. HUNT

ADDRESS: 1401 Elm

Dallas, Texas 75202

STATE OF TEXAS)

) ss.

COUNTY OF DALLAS)

The foregoing instrument was acknowledged before me this 11th day of August, 1972 by W. H. Hunt

My Commission Expires:
June 1, 1973

Lee G. Halliwell
Notary Public
in and for Eddy County, Texas
My Commission Expires June 1, 1973

STATE OF _____)

) ss.

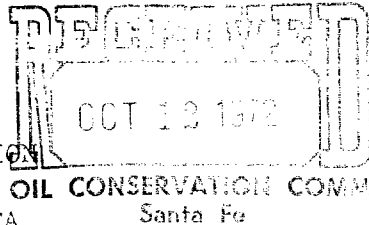
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1972 by _____ of _____, a Corporation, on behalf of said Corporation.

My Commission Expires: _____

Notary Public

UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SITTING BULL UNIT AREA



COUNTY OF EDDY, STATE OF NEW MEXICO

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UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE SITTING BULL UNIT AREA
COUNTY OF EDDY, STATE OF NEW MEXICO

THIS AGREEMENT made and entered into as of the 7th day of August, 1972, by and between Inexco Oil Company with offices at Midland, Texas, hereinafter referred to as "Unit Operator", and the undersigned as owners of working interests in the unitized substances within the unit area subject to the Unit Agreement hereinafter referred to as may subscribe to this agreement and become parties hereto, which owners are hereinafter referred to as "Working Interest Owners" or as "Non-Operators".

WITNESSETH:

WHEREAS, the parties hereto have concurrently herewith, as of the date hereof, entered into a certain Unit Agreement for the development and operation of the Sitting Bull Unit Area, hereinafter referred to as the "Unit Agreement", and which said agreement embraces the following described land situated in Eddy County, New Mexico, hereinafter referred to as the "unit area":

Township 23 South, Range 22 East, N.M.P.M.

Section 28: Lots 1,2,3,4, W/2 E/2, W/2 (A11)

Section 29: All

Section 31: Lots 1,2,3,4,5,6,7, E/2 NW/4, NE/4 SW/4, N/2 SE/4, NE/4 (A11)

Section 32: Lots 1,2,3,4, N/2 S/2, N/2 (A11)

Section 33: Lots 1,2,5,6,7,8,9,10,11,12,13,14,15,16,17,
N/2 NW/4, W/2 NE/4, SW/4 NW/4 (A11)

Township 24 South, Range 22 East N.M.P.M.

Section 4: Lots 1,2,3,4, S/2 N/2, S/2 (A11)

Section 5: Lots 1,2,3,4, S/2 N/2, S/2 (A11)

Section 6: Lots 1,2,3,4,5,6,7, SE/4 NW/4, E/2 SW/4, S/2 NE/4, SE/4 (A11)

Section 7: Lots 1,2,3,4, E/2 W/2, E/2 (A11)

Section 8: All

Section 9: All

Containing 6964.54 acres, more or less.

WHEREAS, the parties hereto enter into this agreement pursuant to Section 7 of the Unit Agreement.

NOW THEREFORE, it is mutually agreed between the parties hereto as follows:

ARTICLE I

1. UNIT PLAN CONFIRMED: The aforesaid Unit Agreement and all exhibits attached thereto are hereby confirmed and made a part of this agreement.

ARTICLE II

2.1 TITLE EXAMINATION: The parties hereto shall, as soon as practicable, submit to Unit Operator copies of their respective leases embracing lands committed to the unit area together with all rental receipts and copies of any and all title opinions covering said lands, and shall loan to Unit Operator for examination all abstracts which they may have covering said lands. Unit Operator shall procure all supplemental abstracts and other title papers which may be necessary or required to examine title to the leasehold interests committed to the Unit Agreement and all expenses incurred in examining title shall be charged as an expense to the parties participating in the drilling of the initial test well in proportion to their respective interests.

Should Unit Operator point out any bona fide title requirements with respect to any leasehold interest committed to the Unit Agreement, the owner thereof shall make a good faith effort to promptly satisfy all such title requirements.

2.2 FAILURE OF TITLE: Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases

and interests and,

(a) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the unit area by the amount of the interest lost; and

(c) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the unit area is increased by reason of the title failure, the party whose title failed shall receive the proceeds attributable to the increase in such interest (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the costs of operation, development or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the parties in the same proportion in which they shared in such prior production.

2.3 LOSS OF LEASES FOR CAUSES OTHER THAN TITLE FAILURE:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom

is shut-in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of the participating interests of the parties hereto on account thereof.

ARTICLE III

MANAGEMENT OF UNIT

3.1 UNIT OPERATOR AND EMPLOYEES: Inexco Oil Company the party hereto named as Unit Operator of the unit area under the provisions of the Unit Agreement, or its duly appointed successor Unit Operator, shall have the exclusive right to develop and operate the unit area subject to the provisions of this agreement and the Unit Agreement. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

3.2 UNIT OPERATOR - DUTIES: Unit Operator shall in the conduct of operations hereunder:

(a) Conduct the operations in a good and workmanlike manner, and in the exercise of its judgment and discretion, acting in good faith;

(b) Consult freely with Working Interest Owners concerning unit operations, and keep Working Interest Owners informed of all matters arising during the operation of the unit area which Unit Operator, in the exercise of its best judgment, considers important.

(c) Keep full and accurate records of all costs incurred, rentals and royalties paid, and controllable materials and

equipment, which records, receipts and vouchers in support thereof shall be available for inspection by authorized representatives of the Working Interest Owners at reasonable intervals during usual business hours, at the office of the Unit Operator;

(d) Permit the Working Interest Owners, each through their duly authorized representatives, but at their sole risk and expense, to have access to the unit area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the unit area;

(e) Furnish to each of the other parties who makes timely written request therefor, copies of Unit Operator's authorization for expenditures or itemizations thereof in excess of Five Thousand Dollars (\$5,000.00) and copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, and reports of stock on hand at the first of each month, if available, and samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(f) Comply with the terms and conditions of the Unit Agreement and all valid applicable Federal and State laws and regulations;

(g) Keep the land in the unit area free from liens and encumbrances occasioned by its operations, except such liens as the Working Interest Owners elect to contest, and save only the lien granted the Unit Operator under this agreement.

3.3 UNIT OPERATOR - RESTRICTIONS: The Unit Operator shall not do any of the following things without the consent of the Working Interest Owners obtained as herein provided:

(a) Locate, drill, deepen, or plug back any well or let any contract therefor. The approval of the drilling, deepening or plugging back of any well shall be construed to mean and include the approval of any necessary expenditures therefor and the approval of any completion attempt shall be construed to include all expenditures incurred in completing and equipping of such well, including flow lines, separators and necessary tankage if a producer, and if a dry hole, the plugging and abandonment thereof, except as otherwise provided in Article V hereof;

(b) Make any expenditures in excess of Five Thousand Dollars (\$5,000.00) for any one single project;

(c) Make any expenditure for expert technical advice, including any extra services rendered by Unit Operator's technical staff, not contemplated by the provisions of Exhibit "D" attached hereto, and not covered by the overhead, district and camp expenses therein authorized, which overhead in Exhibit "D" is intended to cover only normal development and operations;

(d) Make any partial relinquishment of the rights of the Unit Operator;

(e) Abandon any well which has been completed as a producing well or dispose of any major items of surplus material or equipment, other than junk, having an original cost of Two Thousand and No/100----- Dollars (\$2,000.00) or more (any such item or items of less cost may be disposed of without such approval), except as may otherwise be provided herein;

(f) Designate the lands to be included in any participating area or enlargement thereof, or submit for approval any plan for the development and operation of the unit area or any participating area or supplement or amendment thereto in accordance with the provisions of the Unit Agreement;

(g) Determine whether to drill a demanded offset well or pay compensatory royalty;

(h) Drill or abandon any injection wells or convert any well into an injection well;

(i) Determine not to pay the annual rental, advance rental or delay rental under any lease.

In case of blowout, explosion, fire, flood or other sudden emergency, Unit Operator may take such steps and incur such expense as, in its opinion, are required to deal with the emergency and to safeguard life and property; provided the Unit Operator shall, as promptly as possible, report the emergency to the other parties and shall endeavor to secure any sanction that might otherwise have been required.

Subject to the provisions of this agreement, Unit Operator shall have full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

3.4 CONSENT OF WORKING INTEREST OWNERS: On matters on which the consent of Working Interest Owners is required, each Working Interest Owner shall have a vote equal to the proportionate or fractional gross acreage interest owned by such party in the unit area. Except as otherwise specified herein or in the Unit Agreement, an

affirmative vote of 75% of the voting power of the Working Interest Owners involved shall constitute the decision of the Working Interest Owners, which decision shall be binding upon all; provided, however, where any Working Interest Owner owns as much as 75%, but less than 100%, voting interest in the unit area such party's vote must be supported by the affirmative vote of at least one additional Working Interest Owner; and provided, further, that if any party owns 25% or more voting interest, but less than 50%, the vote of such party shall not serve to defeat or disapprove any matters approved by the majority (over 50%) unless supported by at least one additional voting interest.

The Working Interest Owners shall meet in regular or special meetings for the purpose of discussing unit business and of voting on the matters set out in Section 3.3 hereof, and of exercising any other powers by this agreement or by the Unit Agreement committed to the Working Interest Owners. Each Working Interest Owner shall designate a representative and an alternate to represent him at such meeting who shall have such powers as are conferred on him by his principal, which powers shall be sufficiently broad to enable the representative to vote on matters coming before said meeting. Notice of meetings and place of holding the same and other notices shall be served on such representative by the Unit Operator. The representative of the Unit Operator shall act as Chairman at all meetings. Each Working Interest Owner shall have the right, from time to time, on notice to the Unit Operator, to change the representative or the alternate. It shall be sufficient for the Unit Operator to poll by telegram all of the affected Working Interest Owners on all such matters without calling a meeting, and any vote so taken pursuant to such poll shall be as binding on the Working Interest Owners as if

done at a regular or special meeting at which a quorum was present. The Working Interest Owners shall be notified by the Unit Operator of the results of any such poll as soon as practicable.

3.5 UNIT OPERATOR - LIABILITIES: Unit Operator shall not be liable to any of the Working Interest Owners for anything done or omitted to be done by it in the conduct of operations hereunder while acting in compliance with Section 3.2(a) hereof. The provisions of this section shall not relieve Operator of its duty to obtain the consent of the Working Interest Owners in accordance with the provisions of Section 3.3.

3.6 UNAVOIDABLE DELAY: The obligations of Unit Operator shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workment, acts of civil or military authorities, acts of the public enemy, acts of God, restrictions or restraints imposed by law or by regulations or orders of governmental authorities, whether Federal, State or local, inability to obtain necessary rights of access, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market or other matters beyond the reasonable control of the Unit Operator, whether or not similar to any cause above enumerated.

ARTICLE IV

COST OF OPERATIONS AND ALLOCATION OF PRODUCTION

4.1 COST OF OPERATIONS AND ACCOUNTING PROCEDURES: The actual cost to the Unit Operator of performing its obligations as Unit Operator hereunder shall be apportioned, except with respect to the initial test well as provided in Section 5.1 hereof, among the

Working Interest Owners having leasehold interests committed to the Unit Agreement in accordance with the percentages set forth in Column 5, page 2 of Exhibit "C" attached hereto and made a part hereof, and said costs shall be paid by the respective Working Interest Owners in accordance with the Accounting Procedure attached hereto, made a part hereof, and for purposes of identification marked Exhibit "D".

4.2 ALLOCATION OF PRODUCTION: All unitized substances produced and saved from each participating area established pursuant to the Unit Agreement shall be deemed to have been produced equally on an acreage basis from the several tracts of unitized lands of the participating area established for such production and for the purpose of computing and paying all royalties, overriding royalties and obligations payable out of production of the respective Working Interest Owners each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of each tract included in said participating area bears to the total number of acres of unitized land in said participating area in conformity with Section 12 of the Unit Agreement.

All production from each participating area remaining after allocating the production for the purpose of paying royalties, overriding royalties and obligations payable out of production as above provided (and being the working interest) shall be allocated to the respective Working Interest Owners (except as to the initial test well) in accordance with each Working Interest Owner's respective percentage ownership as reflected in Column 6, page 2

of Exhibit "C" attached hereto. It is provided however, that not withstanding the percentage share of production specified in said Column 6, if any Working Interest Owner contributes a lease within a participating area which lease is subject to an overriding royalty interest, production payment interest or other charge over and above the usual $1/8$ lessor's royalty, then the Working Interest Owner contributing that lease shall have his share of the working interest production from that participating area reduced by an amount equal to the amount of such excess obligations. It is the intention of the parties hereto that the foregoing provisions shall, in effect, cause any Working Interest Owner who contributes a lease with excess obligations to assume and alone bear the same out of that Working Interest Owner's share of working interest production from the participating area.

Except as hereinafter provided, the percentages of participation of the parties hereto in costs of operation and allocation of production as shown on Exhibit "C" shall remain the same regardless of any contraction of the unit area or automatic elimination of lands therefrom in accordance with Section 2 of the Unit Agreement. There shall be a readjustment of the percentage ownership and allocations as among the parties hereto on the basis of changes in acreage contributions and the interests of the parties recomputed on the basis of the revised acreage upon the occurrence of any of the following events:

- (i) The working interest in any tract shown on Exhibit "C" is not committed to the Unit Agreement;

- (ii) any tract is eliminated through failure of title or lost through failure to pay rentals in conformity with Section 6.1 hereof;
- (iii) if there should be any errors in mathematical computations;
- (iv) to carry out the adjustments in acreage ownership and allocation of interests required by the acreage contribution agreements referred to in Section 5.1 hereof;
- (v) upon the payment of each production payment shown by Exhibit "B" attached to the Unit Agreement.

If any tract committed to the Unit Agreement becomes burdened with any additional overriding royalties, production payments or lease burdens other than those shown on Exhibit "B" attached to the Unit Agreement, the same shall be borne exclusively by the owner or owners of such tract.

4.3 CONFLICT OF INSTRUMENTS: In the event of any conflict between the provisions contained either in the body of this instrument or in the Unit Agreement and those contained in the Accounting Procedure the provisions of the Unit Agreement shall govern to the extent of such conflict. The term "Operator" as used in Exhibit "D" shall be deemed to refer to the Unit Operator, and the term "Non-Operators" as used in Exhibit "D" shall be deemed to refer to the Working Interest Owners herein.

4.4 OPERATOR'S LIEN: Unit Operator is hereby granted a prior lien on the rights and interests of each such Working Interest Owner, and the material and equipment thereon, to secure the payment of its proportionate part of said costs and expenses. Should any Working Interest Owner fail to pay its proportionate part of said costs and expenses within thirty (30) days after being billed

therefor as provided in the referred to Accounting Procedure, Exhibit "D", Unit Operator shall notify such Working Interest Owner of the default by registered mail and thereafter the Unit Operator shall have the right, at its option, to foreclose said lien on the respective interests of such Working Interest Owner. In lieu of or in addition to such remedy, the parties hereto agree that in the event of default and after notice of same to the defaulting party, the Unit Operator may notify the purchaser of the defaulting party's share of unitized substances and such purchaser shall pay all proceeds accruing on account thereof to Unit Operator until said obligation is extinguished without any liability to the defaulting party; provided, however, no purchaser of unitized substances shall be required to respect such lien until so notified by the Unit Operator of the default. In lieu of or in addition to the remedy above specified for such default, Unit Operator may have any other remedy afforded by law or equity against the defaulting party for such default.

Likewise, Non-Operators are hereby granted a prior lien on the rights and interests of the Unit Operator as a Working Interest Owner in the unit area and unitized substances and upon the interest of the Unit Operator in all materials and equipment to secure the payment of any amounts which may become due and owing from Unit Operator to any of the Non-Operators, which lien shall be subject to all of the terms and conditions provided for in the preceding paragraph.

4.5 ADVANCES: Unit Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of eight percent (8%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

4.6 TAXES: All of the jointly owned personal property within the unit area shall be rendered by the Operator for ad valorem taxes if necessary. The Operator shall pay all ad valorem taxes rendered or assessed against said properties, and all such amounts so paid by the Operator shall be charged to the joint account of the parties hereto. All other taxes which may be levied upon or against the respective leasehold interests or measured by the production of unitized substances allocated to the respective tracts under the terms of the Unit Agreement and this agreement shall be paid by the respective Working Interest Owners having interests in such tracts.

4.7 INSURANCE: Unit Operator shall at all times while operations are being conducted on the unit area comply with the Workmen's Compensation laws of the State of New Mexico. Unit Operator shall also carry or provide for the benefit of the joint account of the parties hereto the insurance outlined on Exhibit "E" attached hereto.

All premiums for insurance coverage shall be regarded as operating costs and apportioned among Working Interest Owners accordingly.

All damages or injuries to any property held, controlled or operated by Unit Operator for the joint account of the parties hereto shall be borne by said parties in proportion to their interest therein at the time of such damage or injury. Unit Operator shall not be obligated to provide fire, windstorm, explosion or any other form of insurance for the joint account except the insurance listed on Exhibit "E".

ARTICLE V

WELLS

5.1 INITIAL TEST WELL: Within thirty (30) days after the effective date of the Unit Agreement, Unit Operator shall commence operations upon the test well which is required to be drilled pursuant to the provisions of Section 9 of the Unit Agreement (unless such well should be commenced prior to the effective date of said Unit Agreement). Said well shall be drilled in compliance with Section 9 of the Unit Agreement and shall also be drilled in accordance with the applicable regulations of the Secretary of the Interior and the New Mexico Oil Conservation Commission.

The initial test well shall be drilled, tested, completed and placed on production, if a discovery of oil or gas in paying quantities is made, or plugged and abandoned if the same results in a dry hole or well not capable of producing oil or gas in paying quantities, at the sole cost, risk and expense of the parties who are to participate in the drilling of said well as shown in Column 3, Page 2 of Exhibit "C".

If it should be necessary to abandon said well because of mechanical difficulties or for any cause, a substitute well or wells may be drilled therefor and for all purposes of this agreement such substitute well shall be deemed to constitute the "initial test well" to be drilled pursuant to the Unit Agreement.

In connection with the drilling of the initial test well Cities Service Oil Company, Bell Petroleum Company, W. H. Hunt and Union Oil Company of California, hereinafter referred to as "non-participating parties", have

each agreed to contribute an undivided 1/2 interest in and to their respective leasehold interests committed to the Unit Agreement as shown on Exhibit "B" attached thereto, said contributions being made to Inexco Oil Company, in consideration of Inexco Oil Company paying all of the costs of drilling, testing and completing said well which would otherwise be attributed to said parties on a pro rata gross acreage basis.

In the event the initial test well is completed as a well capable of producing unitized substances in paying quantities, each of the non-participating parties shall, upon request of Inexco Oil Company, execute and deliver to Inexco Oil Company good and sufficient Assignment Agreement, if required, conveying an undivided 1/2 interest in and to their respective leasehold rights committed to the Unit Agreement. In addition, Inexco Oil Company shall have the right to receive and own all of the interests of the non-participating parties in and to all unitized substances which may be produced, saved and marketed from the initial test well until said well has paid out with respect to such interests. The term "Payout" as used herein shall be that period of time beginning with the date of the first production from the initial test well and ending on that date at which the value of the production of unitized substances from said well attributable to the respective interests of the non-participating parties had they participated in the cost of said well, after deducting royalty, overriding royalties and other lease burdens (specifically including the overriding royalty herein below reserved to "non-participating parties"), as well as their respective proportionate parts of all severance, property and production taxes calculated as provided by the accounting procedure attach

hereto, shall equal the actual costs incurred by Inexco Oil Company, attributable to the respective interests of the non-participating parties had they participated in the cost of drilling, testing, completing, equipping and operating said well during the payout period. During the payout period above referred to, said "non-participating parties" shall be entitled to receive their respective proportionate parts, in the proportion that their acreage committed to the unit bears to the total acreage committed to the unit, of a 1/16th of 8/8ths overriding royalty free of all costs except taxes. In the event any such party elects to accept his or its proportionate part of production as set forth in Column 6, Page 2, as applicable, of Exhibit "C" attached hereto, then as to each interest owner so electing after payout of said well, such overriding royalty shall terminate and cease to be a burden upon the interest of Unit Operator. Effective as of 7:00 A.M. Mountain Standard Time on the first day of the month following that date upon which payout has occurred the non-participating parties shall become entitled to their respective parts of the working interest production from said well as shown in Column 6, Page 2 of Exhibit "C" and from and after said time each of said parties shall own their proportionate parts of the equipment in and installed in connection with said well as shown in Column 5 on Page 2 of Exhibit "C" and shall thereafter bear their proportionate parts of the operating costs as therein provided.

All operating costs incurred in connection with the initial test well until paid out as herein provided shall be borne by the parties participating in the cost of drilling and completing said well in the same proportions as they participated in the costs of drilling and completing said well as shown in Column 3 on Page 2 of Exhibit "C".

Should the initial test well be completed as a producing well, but is plugged and abandoned before payout as herein provided, the parties participating in the cost thereof shall have the right to salvage all equipment in and installed in connection with said well and to credit the salvage value thereof in proportion to their respective participating interests on the unrecovered portion of the cost of drilling, completing, plugging and abandoning said well.

Subsequent to the drilling, completing and placing on production of the initial test well, if the same is completed as a well

capable of producing unitized substances in paying quantities, or plugging and abandonment of the same in case said well is a dry hole, all costs and expenses incurred by the Unit Operator in the exploration, development and operation of any of the lands within the unit area or on account of the inclusion of all or any part thereof in any participating area or participating areas created and approved in accordance with the terms of the Unit Agreement and this agreement shall be allocated to and borne by the parties hereto in proportion to their respective percentages of gross committed acreage within the Unit Area, as shown in Column 5 on Page 2 of Exhibit "C", except as provided for hereinabove with reference to the interests of the non-participating parties in and to the initial test well, and all unitized substances which may be allocated pursuant to the Unit Agreement to all or any portion of the respective tracts committed to the Unit, after paying all royalties and overriding royalties and other lease burdens, shall be allocated to the parties hereto in accordance with their respective interests as shown in Column 6, Page 2 of Exhibit "C", except as hereinabove provided as to the initial test well until the same has paid out; and except as to any reduction in an interest of a Working Interest Owner pursuant to Section 4.2 hereof; provided, however, nothing herein contained shall prevent any of the parties hereto from not participating in the cost of any exploration and development operations or in the reworking, deepening, plugging back, well completion or other operations as provided by Section 5.6 herein.

5.2 OTHER TEST WELLS: In the event the initial test well provided for in Section 5.1 hereof is completed as a dry hole or a well not capable of producing unitized substances in paying quantities

and the Unit Operator desires to drill an additional well or wells, the parties may enter into a new farmout agreement on the same terms as provided in Section 5.1 hereof, participate in the drilling of the well with their interests as set out therein, or go non-consent subject to the provisions of Section 5.6 hereof.

5.3 MODIFICATION OF DRILLING REQUIREMENTS OF UNIT AGREEMENT:

The Unit Operator may apply for and obtain a modification of the drilling requirements of said Unit Agreement or an extension or extensions of time within which to comply therewith as provided by the terms of said Unit Agreement, and any such application or applications may be made without the consent of any of the Working Interest Owners subscribing hereto as parties of the second part.

5.4 WELL CONTRACTS: All wells drilled in the unit area by Unit Operator after the effective date of this agreement, shall be drilled on a competitive contract basis at the usual rates prevailing in the region of the unit area. Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of such wells, but in such event the charge therefor shall not exceed the competitive prevailing rate charged by independent contractors doing work of similar nature. If the parties who are to participate in the cost of drilling any well are unable to mutually agree on the competitive contract price, Operator shall obtain bids from at least three responsible drilling contractors who are ready, able and willing to drill a well of the type contemplated by the parties hereto on lease acreage covered hereby; and said competitive contract price shall be the lowest acceptable bid received which will result in the most economical drilling

of said well. All drilling, whether by Unit Operator or others, shall be under contracts approved by the parties hereto, which contracts shall contain appropriate provisions that any well drilled on the joint leases when completed shall not deviate in excess of five (5) degrees from perpendicular.

5.5 DEVELOPMENT AND OPERATION SUBSEQUENT TO DISCOVERY OF UNITIZED SUBSTANCES IN PAYING QUANTITIES: After the discovery of unitized substances in paying quantities on the unit area, Unit Operator shall only drill such wells as may be provided for in any plan of development and operation for the unit area or amendment or supplement thereto filed and approved as provided by Section 10 of the Unit Agreement after approval by the parties hereto as provided by Section 3.3 hereof, and all such wells shall be drilled for the joint account of the parties hereto and the production of unitized substances therefrom shall be allocated to said parties as provided by Section 4.2 hereof; provided, however, the drilling, completion, deepening, plugging back or reworking of any such well shall be subject to the nonconsent provisions of Section 5.6 hereof.

Notwithstanding any provisions to the contrary contained in this agreement, consent to the drilling of a test well shall not be deemed as consent to the setting of production casing or liner and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice by telephone or wire to Non-operators. The parties receiving such notice shall have twenty-four (24) hours (exclusive of Saturdays, Sundays or legal holidays) in which to elect whether or not they desire to set casing or liner and to participate in a completion attempt. Failure of a party receiving such notice to reply by telephone or wire within the period fixed above shall constitute an election by that party not to participate in the cost of a completion attempt. If all parties elect to plug and abandon the test well, Operator shall plug and abandon the well at the expense of all parties.

If one or more, but less than all of the parties, elect to set pipe and attempt a completion, the provisions of Section 5.6 shall apply to the operation.

5.6 OPERATIONS BY LESS THAN ALL PARTIES - NONCONSENT OF WORKING INTEREST OWNERS: If all the parties cannot mutually agree upon the drilling of any well on the unit area other than the test well provided for in Section 5.1, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the unit area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, or drill, rework, deepen or plug back such a well at the expense of the parties not consenting to the operation.

to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper where a drilling rig is on location, the period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Nonconsenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.

If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting parties in accordance with the provisions of this section, each Nonconsenting Party shall be deemed to have relinquished to Consenting Parties and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Nonconsenting Party's interest in the well, its leasehold operating rights and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Nonconsenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Nonconsenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Nonconsenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Nonconsenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Nonconsenting Party had it participated in the well from the beginning of the operation; and

(b) 300% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 8.6 and

300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Nonconsenting Party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operations, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Nonconsenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Nonconsenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Nonconsenting Party had it participated therein shall be credited against the total

unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Nonconsenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Nonconsenting Party.

If and when the Consenting Parties recover from a Nonconsenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Nonconsenting Party shall automatically revert to it and from and after such reversion such Nonconsenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Nonconsenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Nonconsenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of the well in accordance with the terms of this agreement and the Accounting Procedure, Exhibit "D", attached hereto.

Notwithstanding the provisions of this Section 5.6, no well shall be completed or produced from the same pool or reservoir from which a well located elsewhere on the unit area is producing unless such well conforms to the then existing well spacing pattern as established by the New Mexico Oil Conservation Commission for the development of such pool or reservoir.

If any party hereto hereafter should create any overriding royalty, production payment, or other burden against its working interest production and if any other party or parties should conduct nonconsent operations pursuant to the provisions of this section, and, as a result, become entitled to receive the working interest

production otherwise belonging to the non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

5.7 ABANDONMENT OF PRODUCING WELLS: If the Unit Operator has been authorized to abandon any well which has been completed as a producing well as provided by Section 3.3 (e) hereof and all of the parties hereto have not consented thereto, then such party or parties not desiring to abandon the same shall, within ten (10) days thereafter, notify the other parties of their desire to take over and operate said well and shall tender to the other Working Interest Owners sums equal to their proportionate shares in the salvage value of the material and equipment in said well, determined in accordance with the Accounting Procedure attached hereto as Exhibit "D", and on receipt of said sum the parties desiring to abandon said well shall, within 25 days thereafter, assign, without warranty, to the Working Interest Owners not desiring to abandon such well, all of their rights in the well and producing equipment as to the producing formations only, in the land on which said well is situated and their interest in the leasehold estate in a tract surrounding said well of an area equal to that prescribed by the applicable well spacing rule, but if there is no established spacing rule, then said assignment shall cover the working interest and leasehold estate

in the producing formation only in 40 acres surrounding said well, if an oil well, or 320 acres, if a gas well, and said well may thereafter be operated by the Unit Operator for the separate account of the Working Interest Owners not desiring to abandon such well or wells. Proper bills of sale and division orders shall be executed by the assigning parties to accomplish the purposes hereof. The percentage of participation of the parties in and to the production of unitized substances from all other land and leasehold rights under this agreement and the Unit Agreement shall not be affected by the assignments provided for herein.

ARTICLE VI

RENTALS, ROYALTIES AND PRODUCTION

6.1 RENTALS: The Working Interest Owners in each tract shall pay all rentals, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment. If the Working Interest Owners in any tract determine not to pay any such rental, they shall notify Unit Operator at least sixty (60) days before the due date and they shall thereupon assign to all other Working Interest Owners in the unit ares, proportionable to their interests, all of their right, title and interest under said lease; provided, however, all such assignments shall be subject to all obligations with respect to reassignments, if any, of the parties making such assignments theretofore created in favor of parties who are not parties to this agreement. In the event of failure of any Working Interest Owner to make proper payment of any rental through mistake or oversight where such rental is required to continue the lease in force, there shall be no money liability on the part of the party failing to pay such rental, but such party shall

make a bona fide effort to secure a new lease covering the same interest and commit such lease to the unit agreement, and in the event of failure to secure a new lease within a reasonable time, the participating interests of the parties hereto shall be revised so that the party failing to pay any such rental shall not be credited with the ownership of any lease on which rental was required but was not paid. The Unit Operator shall incur no liability for failure to pay any rental due under the terms of any lease committed to said Unit Agreement; however, in the event any rentals are paid by Unit Operator, the same shall be charged and billed to the party responsible for the payment of the same. In the event of loss of title to a lease for failure to pay rental, all loss occasioned thereby shall be that of the Working Interest Owners who should have paid the same.

6.2 DISPOSAL OF PRODUCTION: Each of the parties hereto shall own, and at its own expense, shall take in kind or separately dispose of its proportionate part of all the unitized substances produced and saved from the lands committed to the Unit Agreement, exclusive of the production that the Unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided that each of the parties shall pay or secure the payment of the royalty interest on its proportionate part of the production. At such time or times as a Working Interest Owner shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Unit Operator shall have the authority, revocable by Working Interest Owner at will, to sell all or part of such production for the account of such party, for not less than the prevailing

posted price being paid therefor. All such sales by Operator of Working Interest Owners' production shall be for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract of sale be for a period in excess of one (1) year. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate or intrastate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

ARTICLE VII

CHANGE OF OWNERSHIP

7.1 ASSIGNMENTS: Any Working Interest Owner may, at any time, transfer or assign all of his working interest to any other Working Interest Owner who is then a party to the Unit Agreement and to this agreement, or to any other person, association or corporation, when such assignment is made expressly subject to the terms of the Unit Agreement and the terms of this agreement, and wherein the assignee shall accept and agree to perform all duties, obligations and liabilities thereof. On the making of such assignment, the assignor shall thereupon be relieved of all future duties, obligations and liabilities of Working Interest Owner under this agreement and under the Unit Agreement. A partial assignment of working interests shall be effective as above described to the extent of the interest so assigned. No assignment made under the provisions of this section shall be binding upon the Unit Operator until the first day of the month following the date that a certified copy of said assignment has been delivered to Unit Operator. The terms of this agreement shall be deemed to be covenants running with the land

and the leasehold estates and interests therein of the parties hereto, and shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors and assigns.

7.2 WITHDRAWAL OF PARTY: If any party hereto so desires, it may withdraw from this agreement by conveying, assigning and transferring, without warranty, either express or implied, to the other parties hereto who do not desire to withdraw, all of its right, title and interest in and under the leases included in the unit area, together with the withdrawing party's interest in all wells, casing, material, equipment, fixtures and other personal property belonging to the joint account, but such conveyance or assignment shall not relieve said party from any obligation or liability accruing or incurred prior to the date thereof. The interest so conveyed and assigned shall be held and owned by the assignees in the proportion set out in applicable percentage participation schedules, and thereupon the withdrawing party shall be relieved from all obligations and liabilities thereafter to accrue under this contract, and the right of such party to any benefits subsequently accruing hereunder shall cease; but assignees shall pay assignor for its interest in such casing, material, equipment, fixtures and other personal property owned by the joint account at the salvage value thereof computed in accordance with the Accounting Procedure, Exhibit "D", attached hereto. If all of the parties are not willing to accept the assignment of such interest, the assignment shall be made to those willing to accept such interest in the proportions that their respective interests bear to the aggregate of their interests in the unit area on an acreage basis.

7.3 SUBSEQUENT JOINDER: Prior to commencement of operations under the Unit Agreement, all owners of working interests in the unit area who have joined in the Unit Agreement shall be privileged to join in this agreement by subscribing to the Unit Agreement and this agreement. After commencement of operations under the Unit Agreement, however, subsequent joinder in the Unit Agreement and in this agreement by any party owning a working interest in the unit area shall be on such reasonable terms and conditions as the parties who are then committed to the Unit Agreement and this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

7.4 SURRENDER OR TERMINATION OF INTERESTS: No lease committed to the Unit Agreement shall be surrendered in whole or in part, unless the parties hereto mutually consent thereto. Should any party at any time desire to surrender any lease committed to said Unit Agreement and the other parties should not agree thereto, the party desiring to surrender shall assign, without express or implied warranty of title, subject to the approval of the Director of the Bureau of Land Management as to Federal lands and the Commissioner of Public Lands as to State lands, all of such party's interest in such lease to the other parties hereto in proportion to the interests then severally held by them on an acreage basis in the unit area. If all of the parties are not willing to accept the assignment of such interest, the assignment shall be made to those willing to accept such interest in the proportions that their respective interests bear to the aggregate of their interests in the unit area on an acreage basis. Such assignment shall be free and clear of all liens and encumbrances except all lease

burdens existing as of the effective date of the Unit Agreement, and upon delivery thereof, the assigning party shall be relieved of all further obligations with respect to the lease or leases so assigned, but such assignment shall not relieve the assigning party of any obligations to the joint account incurred with respect to such lease or leases prior to the assignment thereof.

Any Working Interest Owner shall have the right at any time, while not in default of any of the provisions hereof or indebted to the joint account, to be relieved of all further obligations on account of said Unit Agreement, and the provisions hereof, except the obligations to pay such party's proportionate part of the cost of any well then drilling under the provisions of the Unit Agreement or this agreement, by assigning, subject to the approval of the Director as to Federal lands and the Commissioner as to State lands, to the other parties hereto in proportion to the interest then held severally by them on an acreage basis, all of the interest of such party in all leases committed to the Unit Agreement. All such interests shall be assigned free and clear of all liens and encumbrances, except as to lease burdens existing and the effective date of the Unit Agreement. In such event, the Unit Operator shall pay the Working Interests Owner desiring to be relieved of such further obligations for such party's proportionate interest in all casing, materials, equipment, fixtures and other personal property belonging to the joint account, the fair salvage value thereof determined as provided in Exhibit "D" attached hereto.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 NON-DISCRIMINATION: In the performance of work under this agreement, the Unit Operator agrees to comply with the non-

discrimination provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319).

8.2 NOTICES: Except as herein otherwise expressly provided, all notices, reports or other communications required or permitted hereunder shall be deemed to have been properly given when sent by certified or registered mail or telegraph with all postage or charges fully prepaid, and addressed to the parties hereto, at the addresses set opposite their respective names, or such other addresses as may be thereafter furnished. The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office, or sent as a telegram, addressed as above provided.

8.3 RELATION OF PARTIES: The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible for only its obligations, as set out in this agreement.

8.4 INCOME TAX ELECTION, SUBCHAPTER K, OF CHAPTER 1, SUBTITLE A, INTERNAL REVENUE CODE: Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto

hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Operator is hereby authorized and directed to execute, on behalf of each of the parties hereto, such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and data required by Federal Regulations 1.761 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income..

In the event Unit Operator executes for and on behalf of the other parties hereto any election authorized under the provisions of this section, Operator shall give notice of such election to the other parties hereto.

8.5 FORCE MAJEURE: In the event any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract, other than the obligation to make payments of amounts due hereunder, it is agreed that upon such party giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any liability so caused, but for no longer period; and the cause of the force majeure shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean any cause not reasonably within the control of the party claiming suspension.

The settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and the above mentioned requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

8.6 CONTRIBUTIONS TOWARD DRILLING: Any contribution, whether of money or property interest, toward the drilling of any

well drilled on the unit area pursuant to the provisions of this agreement, other than the initial test well, shall be shared by the parties hereto in proportion to their participating interests in such well, provided, however, participation in acreage contributions shall be optional with the respective parties.

8.7 ASSIGNMENTS OF PARTIAL INTERESTS: Notwithstanding any of the provisions contained herein to the contrary, in executing any assignments pursuant to Sections 5.7, 7.2 and 7.4 hereof, where the interest to be assigned is only as to certain producing formations where State or Federal lands are involved, and where such assignments are subject to approval by the Commissioner of Public Lands or the Director of the Bureau of Land Management, the interest to be assigned shall be conveyed by appropriate operating agreements or by any other valid instrument that will carry out the intention of such provision or provisions.

8.8 PROVISIONS CONFORMED WITH LAWS AND REGULATIONS: All of the provisions of this agreement are hereby expressly made subject to all valid, enforceable, and applicable Federal or State laws, orders, rules and regulations, and in the event this contract or any provisions hereof are found to be inconsistent with or contrary to any such law, order, rule or regulations, the latter shall be deemed to control, and this contract shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

8.9 EFFECTIVE DATE AND TERM: This agreement shall become effective as of the effective date of the Unit Agreement and shall remain in full force and effect during the term of said Unit Agreement and any and all extensions or renewals thereof, and, in the event of

the termination of the Unit Agreement for any reason, this agreement shall continue in full force and effect as to all wells which have not been plugged and abandoned as of the time of the termination of the Unit Agreement, and the rights and interests of the parties hereto in such wells and their participation in the production therefrom and in the cost of the operation thereof shall be governed by the provisions hereof, and this agreement with respect thereto shall remain in full force and effect so long as any such well is capable of producing oil or gas in paying quantities, and thereafter until all accounts hereunder are closed.

8.10 COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all other Working Interest Owners, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the unit area.

IN WITNESS WHEREOF, this agreement is executed by the undersigned parties hereto as of the day and year first hereinabove written.

INEXCO OIL COMPANY

By: *Carl J. Schumacher*

Address: *100 Mid America Bldg
Midland, Texas*

UNIT OPERATOR AND WORKING INTEREST OWNER