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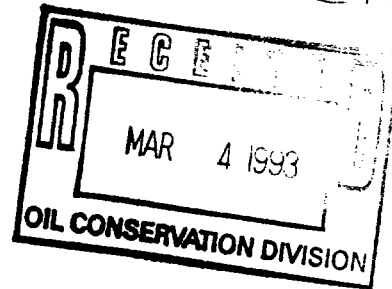
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March 4, 1993

HAND-DELIVERED

William J. LeMay, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
State Land Office Building  
Santa Fe, New Mexico 87503



Re: Amended Application of Seely Oil Company for Statutory Unitization of the Central EK Queen Unit Area or, in the Alternative for Approval of a Voluntary Unit Agreement, Lea County, New Mexico

Dear Mr. LeMay:

Enclosed in triplicate is the Amended Application of Seely Oil Company in the above-referenced case. This matter has been included on the docket for the Examiner hearings scheduled on March 18, 1993.

Very truly yours,

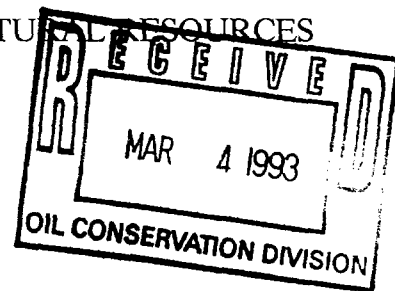
WILLIAM F. CARR  
WFC:mlh

cc: Mr. Clarence Stumhoffer

BEFORE THE  
OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF  
SEELY OIL COMPANY FOR STATUTORY  
UNITIZATION OF THE CENTRAL EK  
QUEEN UNIT AREA, OR IN THE  
ALTERNATIVE FOR APPROVAL OF A  
VOLUNTARY UNIT AGREEMENT,  
LEA COUNTY, NEW MEXICO.



CASE NO. 10647

**AMENDED APPLICATION**

SEELY OIL COMPANY, pursuant to the provisions of the New Mexico Statutory Unitization Act (Section 70-7-1 through 70-7-21, N.M.S.A. 1978 Comp.), hereby applies to the Oil Conservation Division for an order unitizing the Central EK Queen Unit, Lea County, New Mexico or, in the alternative for approval of a voluntary unit agreement, and in support of its application states:

1. Seely Oil Company is a Texas corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.

2. Seely Oil Company seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed Central EK Queen Unit Area which consists of 988.40 acres, more or less, of State land located in Lea County, New Mexico, and is more particularly described as follows:

**Township 18 South, Range 34 East, N.M.P.M.**

Section 7: S/2, S/2 NW/4, SW/4 NE/4  
Section 8: SW/4, S/2 SE/4

Section 9: W/2 SW/4  
Section 17: N/2 N/2  
Section 18: N/2 NE/4

a map of the proposed Unit Area is attached to this application as Exhibit "A"

3. The vertical limits of the formations to be included within the proposed Unit Area is that stratigraphic interval occurring between a point of 100 feet above the top of the Queen Sand and 100 feet below the base of the Queen Sand, said Queen Sand interval occurring between 4366 feet and 4426 feet in the General Operating Company Santa Fe State Well No. 2 located 330 feet from the North line and 990 feet from the East line of Section 18, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico as recorded on the Welex compensated density dual spaced neutron log of said well dated January 20, 1986.

4. The portions of the reservoirs involved in this application have been defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which Seely Oil Company considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Seely Oil Company further states:
- a. Unitized management, operating and further development of the portion of the Yates, Seven Rivers and Queen formations, EK-Yates-Seven Rivers-Queen Pool, which is the subject of this application is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
  - b. Unitized methods of operation applied to this portion of the EK-Yates-Seven Rivers-Queen Pool are feasible, will prevent waste and will result with reasonably probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
  - c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
  - d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights

within this portion of the pool.

- e. Seely Oil Company, as operator, has made a good faith effort to secure voluntary unitization within the portion of the EK-Yates-Seven Rivers-Queen Pool affected by this application.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. Statutory unitization of the Central EK Queen Unit Area, EK-Yates-Seven Rivers-Queen Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

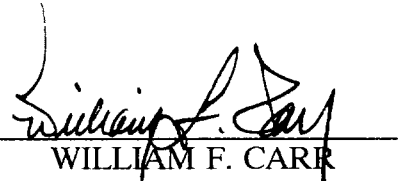
10. Seely has sought voluntary joinder of all interest owners in the proposed unit area, should all owners elect to participate in this unit, Seely requests approval of a voluntary unit agreement for the Central EK Queen Unit.

WHEREFORE, Seely Oil Company respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on March 18, 1993 and, that after notice and hearing as required by law and the rules of the Division, the Division enter its Order granting this application.

Respectfully submitted,

CAMPBELL, CARR, BERGE  
& SHERIDAN, P.A.

By:

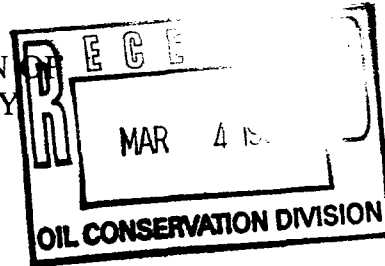
A handwritten signature in black ink, appearing to read "William F. Carr", is written over a horizontal line.

WILLIAM F. CARR  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR SEELY OIL COMPANY

BEFORE THE  
OIL CONSERVATION DIVISION  
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION  
SEELY OIL COMPANY FOR STATUTORY  
UNITIZATION OF THE CENTRAL EK  
QUEEN UNIT AREA, OR IN THE  
ALTERNATIVE FOR APPROVAL OF A  
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1. Seely Oil Company is a Texas corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.

2. Seely Oil Company seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed Central EK Queen Unit Area which consists of 988.40 acres, more or less, of State land located in Lea County, New Mexico, and is more particularly described as follows:

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Section 17: N/2 N/2  
Section 18: N/2 NE/4

a map of the proposed Unit Area is attached to this application as Exhibit "A"

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4. The portions of the reservoirs involved in this application have been defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which Seely Oil Company considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.



8. Seely Oil Company further states:
- a. Unitized management, operating and further development of the portion of the Yates, Seven Rivers and Queen formations, EK-Yates-Seven Rivers-Queen Pool, which is the subject of this application is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
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  - c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
  - d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights

within this portion of the pool.

- e. Seely Oil Company, as operator, has made a good faith effort to secure voluntary unitization within the portion of the EK-Yates-Seven Rivers-Queen Pool affected by this application.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

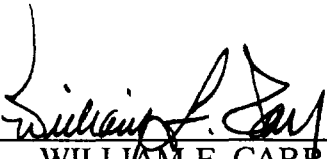
9. Statutory unitization of the Central EK Queen Unit Area, EK-Yates-Seven Rivers-Queen Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

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WHEREFORE, Seely Oil Company respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on March 18, 1993 and, that after notice and hearing as required by law and the rules of the Division, the Division enter its Order granting this application.

Respectfully submitted,

CAMPBELL, CARR, BERGE  
& SHERIDAN, P.A.

By:   
WILLIAM F. CARR  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR SEELY OIL COMPANY

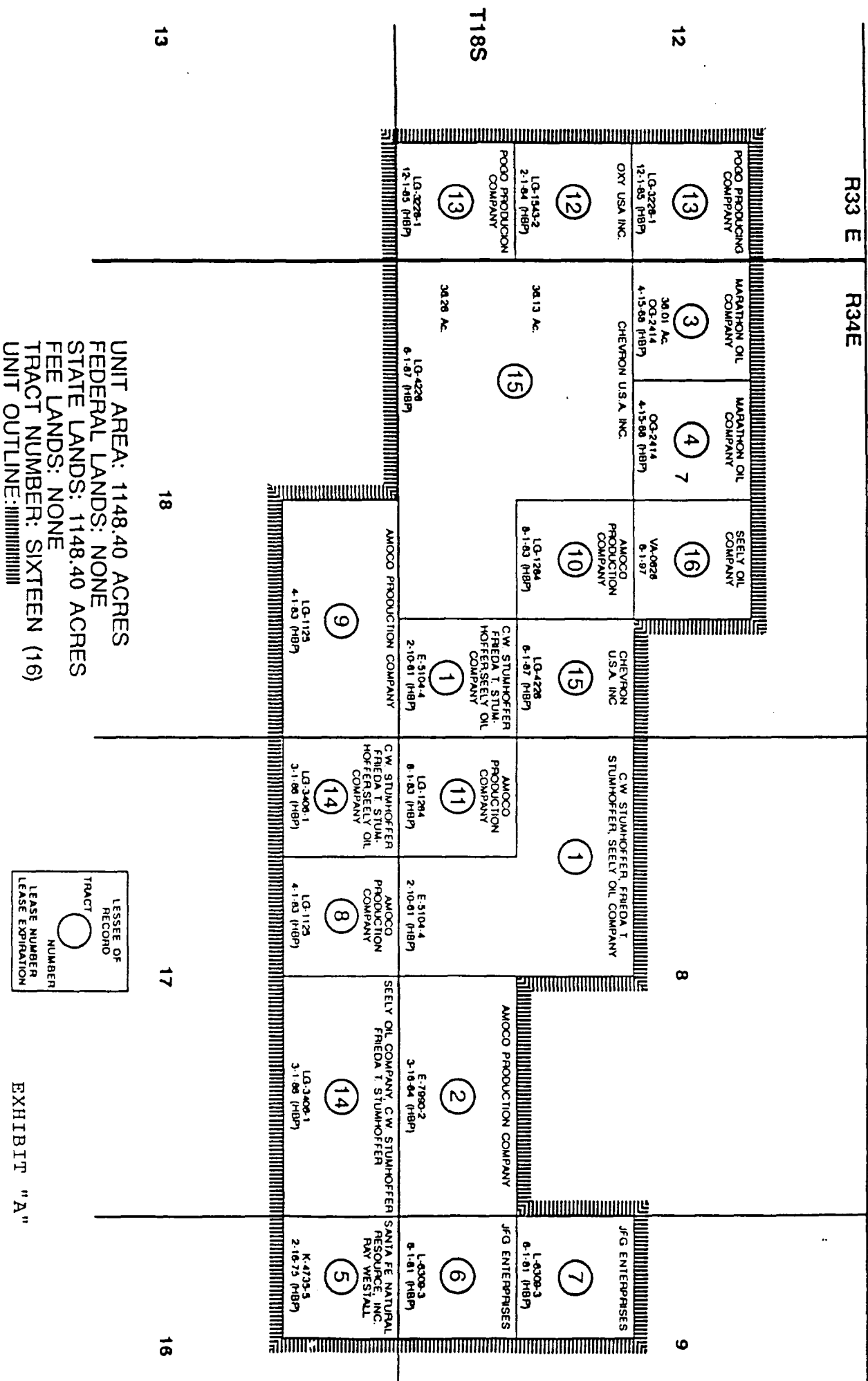
REVISED EXHIBITS WILL BE PROVIDED AT THE TIME OF  
HEARING WHICH CONFORM TO THE NEW UNIT  
BOUNDARIES.

# EXHIBIT "A" TO UNIT AGREEMENT

## CENTRAL EK QUEEN UNIT

### LEA COUNTY, NEW MEXICO

#### MAP OF UNIT AREA



LESSEE OF  
RECORD  
TRACT  
NUMBER  
LEASE EXPIRATION

EXHIBIT "A"

REVISED EXHIBITS WILL BE PROVIDED AT THE TIME OF  
HEARING WHICH CONFORM TO THE NEW UNIT  
BOUNDARIES.

"DRAFT"

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_,  
19 \_\_, by and between the parties subscribing, ratifying, or consenting  
hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty,  
or other oil and gas interests in the Unit Area subject to this Agreement;  
and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat.  
437, as amended, 30 U.S.C. Secs. 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 of any oil or gas pool, field,  
or like area, or any part thereof for the purpose of more properly conserving  
the natural resources thereof whenever determined and certified by the  
Secretary of the Interior to be necessary or advisable in the public  
interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico  
is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws  
1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter  
19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent

EXHIBIT "B"

0011

PROPOSED UNIT AGREEMENT  
CENTRAL, EK QUEEN UNIT  
UTILIZING  
"ALL STATE WATERFLOOD UNIT  
AGREEMENT FORM" PER YOUR  
AUGUST 31, 1992 LETTER

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL EK QUEEN UNIT AREA  
LEA COUNTY, NEW MEXICO



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 1992, 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 T H A T:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the Unit Area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19. Art. 10, Sec. 45 N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap 19, Art. 10, Sec 47, N.M. Stats. 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, 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 agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Central EK Queen Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, 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 Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 100 feet above the top of the Queen Sand and 100 feet below the base the Queen Sand, said Queen Sand interval occurring between 4366 feet and 4426 feet in the General Operating Company Santa Fe State Well No 2 located 330 feet from the north line and 990 feet from the east line of Section 18, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico as recorded on the Welx compensated density dual spaced neutron log of said well dated January 20, 1986.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.

- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, Central EK Queen Unit, Lea County, New Mexico".
- (n) "Unit Manager" is defined as the person or corporation appointed by the Unit 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 Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 1148.40 acres, more or less.

Exhibit "A" to the extent known to Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4.     EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

(3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: Seely Oil Company is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR: 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 (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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, books and records, materials,

appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) 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 or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall



constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; 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 the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter

event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined in accordance with the following formula:

TRACT PARTICIPATION

$$\text{Percentage} = 90\% \text{ A/B} + 10\% \text{ C/D}$$

A = the Tract Cumulative Oil Production from the Unitized Formation as of December 31, 1990, plus an additional 5000 barrels credit for each usable Queen Well on the Tract.

B = the Unit Total Cumulative Oil Production from the Unitized Formation as of December 31, 1990 plus an additional 5000 barrels credit for each usable Queen Well in the Unit Area.

C = the acreage under each Tract.

D = the Total Acreage in the Unit Area.

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division with 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts

listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another..

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

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

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

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

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

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and

demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder as such Tract Participation is shown in Exhibit "C" or any revision thereof. 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 the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract 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. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only 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 be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil

above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled 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 Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner; and Division provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum

gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. CONSERVATION: 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 State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20: LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provision of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State 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:

- (a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every 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.

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its term 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 terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or of any applicable laws shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to each segregated portions commencing as of the effective date hereof; provided, however that 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 if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement, or so long as a portion of the 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 at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests 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 he 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22 EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratified it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Unit participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Royalty Interest in said Unit Area; and

(b) The approval of this agreement by the Commissioner and the Commission; and

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and

(d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before October 1, 1993, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted

authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to

this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner 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.

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

SECTION 27. NONJOINER AND SUBSEQUENT JOINER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owners or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from 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 a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its 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. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Unit Participation of fifty percent (50%) or more and the Commissioner.

IN WITNESS WHEREOF, the undersigned have executed this agreement on the dates evidenced by their respective certificates of acknowledgement hereof.

UNIT OPERATOR AND WORKING INTEREST OWNER

SEELY OIL COMPANY

By: \_\_\_\_\_

STATE OF

COUNTY OF

This instrument was acknowledged before me on \_\_\_\_\_  
by \_\_\_\_\_,  
\_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said  
corporation.

My Commission Expires:

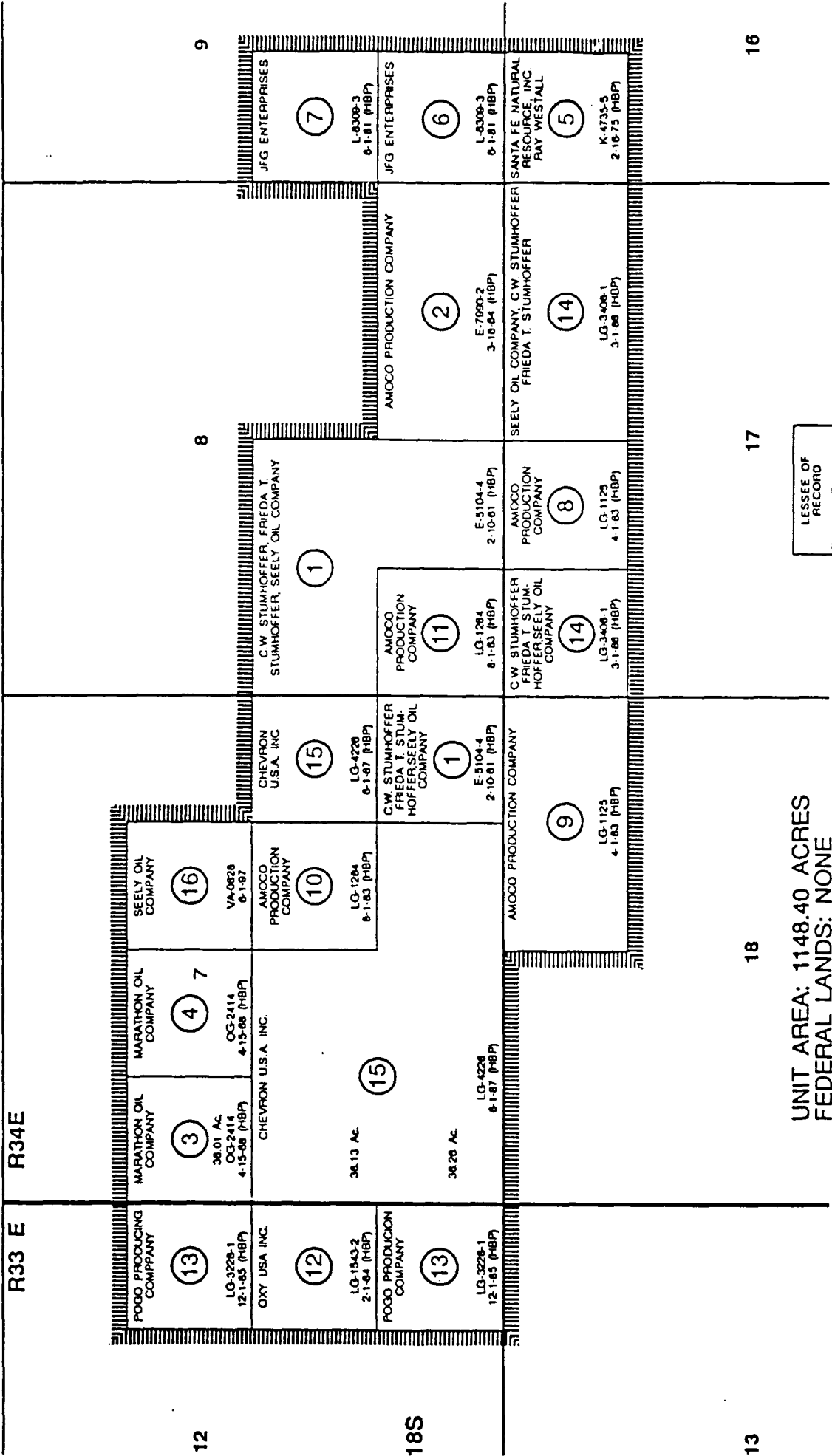
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

# EXHIBIT "A" TO UNIT AGREEMENT

CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

## MAP OF UNIT AREA



UNIT AREA: 1148.40 ACRES  
FEDERAL LANDS: NONE  
STATE LANDS: 1148.40 ACRES  
FEE LANDS: NONE  
TRACT NUMBER: SIXTEEN (16)

LESSEE OF  
RECORD  
TRACT  
NUMBER  
LEASE EXPIRATION

**EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO**

**SCHEDULE SHOWING ALL LANDS AND LEASES**

TRACT	DESCRIPTION OF LAND	NUMBER OF ACRES	LEASE NUMBER & EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNERSHIP	WORKING INTEREST OWNERSHIP AND PERCENTAGE
1	SE/4 SE/4 Section 7 & SE/4 SW/4, N/2 SW/4 Section 8, T18S, R34E C.S.	160.00	E-5014-4 2-10-61(HBP)	State of New Mexico 12.50%	C. W. Stumhoffer Frieda T. Stumhoffer Seely Oil Company	Appendix Note 1	Appendix Note 2
2	S/2 SE/4 Section 8, T18S, R34E C.S.	80.00	E-7990-2 3-16-64(HBP)	State of New Mexico 12.50%	Amoco Production Company	Appendix Note 3	Appendix Note 4
3	Lot 2 (SW/4 NW/4) Section 7, T18S, R34E C.S.	36.01	OG-2414 4-15-68(HBP)	State of New Mexico 12.50%	Marathon Oil Co.	Appendix Note 5	Appendix Note 6
4	SE/4 NW/4 Section 7, T18S, R34E C.S.	40.00	OG-2414 4-15-68(HBP)	State of New Mexico 12.50%	Marathon Oil Co.	None	Marathon Oil Co. - 100%
5	NW/4 NW/4 Section 16, T18S, R34E C.S.	40.00	K-4735-5 2-16-75(HBP)	State of New Mexico 12.50%	<del>Ray Westall</del> Sante Fe Natural Resource, Inc. & Ray Westall	Appendix Note 7	Ray Westall - 100%
6	SW/4 SW/4 Section 9, T18S, R34E C.S.	40.00	L-6309-3 6-01-81(HBP)	State of New Mexico 12.50%	JFG Enterprise	Appendix Note 8	Appendix Note 9
7	NW/4 SW/4 Section 9, T18S, R34E C.S.	40.00	L-6309-3 6-01-81(HBP)	State of New Mexico 12.50%	JFG Enterprise	Appendix Note 10	Appendix Note 11
8	NE/4 NW/4 Section 17, T18S, R34E C.S.	40.00	LG-1125 4-01-83(HBP)	State of New Mexico 12.50%	Amoco Production Company	Appendix Note 12	Appendix Note 13
9	N/2 NE/4 Section 18, T18S, R34E C.S.	80.00	LG-1125 4-01-83(HBP)	State of New Mexico 12.50%	Amoco Production Company	Appendix Note 14	Appendix Note 15



**EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL EX QUEEN UNIT  
LEA COUNTY, NEW MEXICO**

**SCHEDULE SHOWING ALL LANDS AND LEASES**

TRACT	DESCRIPTION OF LAND	NUMBER OF ACRES	LEASE NUMBER BASIC ROYALTY & EXPIRATION		LESSEE OF RECORD	OVERRIDING ROYALTY OWNERSHIP	WORKING INTEREST OWNERSHIP AID PERCENTAGE
			DATE	PERCENTAGE			
10	NW/4 SE/4 Section 7, T18S, R34E	40.00	LG-1284 8-01-83(HBP)	State of New Mexico 12.50%	Amoco Production Company	Appendix Note 16	Appendix Note 17
11	SW/4 SW/4 Section 8, T18S, R34E	40.00	LG-1284 8-01-83(HBP)	State of New Mexico 12.50%	Amoco Production Company	Appendix Note 18	Appendix Note 19
12	NE/4 SE/4 Section 12, T18S, R33E	40.00	LG-1543-2 2-01-84(HBP)	State of New Mexico 12.50%	OXY USA Inc.	None	OXY USA Inc. 85% Pogo Producing Company - - 15%
13	SE/4 SE/4 & SE/4 NE/4 Section 12, T18S, R33E	80.00	LG-3228-1 12-1-85(HBP)	State of New Mexico 12.50%	Pogo Producing Company	None	OXY USA Inc. 85% Pogo Producing Company - - 15%
14	NW/4 NW/4 & N/2 NE/4 Section 17, T18S, R34E	120.00	LG-3406-1 3-01-86(HBP)	State of New Mexico 12.50%	Seely Oil Company C. W. Stumhoffer Frieda T. Stumhoffer	Appendix Note 20	Appendix Note 21
15	Lots 3 & 4 (W/2 SW/4), E/2 SW/4, NE/4 SE/4 & SW/4 SE/4 Section 7, T18S R34E	232.39	LG-4226 6-01-87(HBP)	State of New Mexico 12.50%	Chevron U.S.A. Inc.	Appendix Note 22	Appendix Note 23
16	SW/4 NE/4 Section 7, T18S, R34E	40.00	VA-0628 6-01-97	State of New Mexico 12.50%	Seely Oil Company	Appendix Note 24	Appendix Note 25
TOTALS			0 Federal Tracts 16 State of New Mexico Tracts 0 Fee Tracts 16 Tracts		0.00 Acres 1,148.40 Acres 0.00 Acres 1,148.40 Acres	0.00% of Unit Area 100.00% of Unit Area 0.00% of Unit Area 100.00% of Unit Area	

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 1 - OVERRIDING ROYALTY OWNERS UNDER TRACT 1

Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.157407%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 2 - WORKING INTEREST OWNERS UNDER TRACT 1

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company	2.790%
** C.E.B. Oil Company	2.790%
* E.A.B. Oil Company	2.800%
** P.V.B. Oil Company	2.800%
* Houston & Emma Hill Trust Estate	9.314%
*** Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 3 - OVERRIDING ROYALTY OWNERS UNDER TRACT 2

Windell A. Thomason	7.500000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.143440%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 4 - WORKING INTEREST OWNERS UNDER TRACT 2

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 5 - OVERRIDING ROYALTY OWNERS UNDER TRACT 3

Marathon Oil Company	12.500000%
Dwight A. Free, Jr.	2.343750%
John E. Casey	1.171880%
Bradley A. Pomeroy	0.328130%
Hamon Operating Company	6.156250%
Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.121082%

NOTE 6 - WORKING INTEREST OWNERS UNDER TRACT 3

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\* Subject to a 25% reversionary working interest at payout.  
\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.  
\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 7 - OVERRIDING ROYALTY OWNERS UNDER TRACT 5

Unknown

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 8 - OVERRIDING ROYALTY OWNERS UNDER TRACT 6

Windell A. Thomason	12.500000%
David S. Googins, Jr.	1.000000%
George Weis	1.000000%
Bobby Hicks	1.000000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.134122%

NOTE 9 - WORKING INTEREST OWNERS UNDER TRACT 6

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 10 - OVERRIDING ROYALTY OWNERS UNDER TRACT 7

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.153681%

NOTE 11 - WORKING INTEREST OWNERS UNDER TRACT 7

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 12 - OVERRIDING ROYALTY OWNERS UNDER TRACT 8

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Santa Fe Exploration Co.	0.500000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.134122%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 13 - WORKING INTEREST OWNERS UNDER TRACT 8

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.



APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 14 - OVERRIDING ROYALTY OWNERS UNDER TRACT 9

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Marc H. Lowrance, Jr.	0.727500%
Bill M. Scales	0.092365%
* C. W. Seely	1.910610%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 15 - WORKING INTEREST OWNERS UNDER TRACT 9

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	15.920%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	5.100%
** John P. Oil Company	1.910%
** C.E.B. Oil Company	1.910%
** E.A.B. Oil Company	1.910%
** P.V.B. Oil Company	1.910%
** Houston & Emma Hill Trust Estate	6.370%
* Express Air Drilling, Inc.	3.980%
* Wes-Tex Drilling Company	3.980%
* Northbrook Business Center	3.980%
* Burnett Oil Company	6.370%
* Merlyn W. Dahlin	1.270%
* Charles P. Davis	1.270%
David L. Henderson	0.638%
Michael J. Havel	0.639%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	6.530%
Frances Buckler	4.375%
Roger W. Moore	4.375%
J. C. Maddux	2.734%
Thomas J. Maddux	5.469%
Santa Fe Exploration Co.	7.81250%
Armstrong Energy Corp.	1.87500%
Judy Harris	1.40625%
Laurelind Corp	1.40625%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 16 - OVERRIDING ROYALTY OWNERS UNDER TRACT 10

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Santa Fe Exploration Co.	0.500000%
Marc H. Lowrance, Jr.	0.806500%
Bill M. Scales	0.116930%
* C. W. Seely	2.419200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 17 - WORKING INTEREST OWNERS UNDER TRACT 10

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.040%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.370%
* John P. Oil Company **	2.760%
* C.E.B. Oil Company **	2.760%
* E.A.B. Oil Company **	2.760%
* P.V.B. Oil Company **	2.760%
* Houston & Emma Hill Trust Estate ***	9.220%
* Express Air Drilling, Inc.	5.760%
* Wes-Tex Drilling Company	5.760%
* Northbrook Business Center	5.760%
* Burnett Oil Company	9.220%
* Merlyn W. Dahlin	1.840%
* Charles P. Davis	1.840%
David L. Henderson	0.921%
Michael J. Havel	0.921%
C. W. Stumhoffer & Frieda T. Stumhoffer	7.840%
C. W. Seely	9.468%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 18 - OVERRIDING ROYALTY OWNERS UNDER TRACT 11

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Marc H. Lowrance, Jr.	0.806500%
Bill M. Scales	0.116930%
* C. W. Seely	2.419200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 19 - WORKING INTEREST OWNERS UNDER TRACT 11

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	20.160%
* Patricia Dean Boswell, Trustee under Revocable	6.450%
** Trust Agreement dated June 13, 1988	
** John P. Oil Company	2.420%
** C.E.B. Oil Company	2.420%
** E.A.B. Oil Company	2.420%
** P.V.B. Oil Company	2.420%
*** Houston & Emma Hill Trust Estate	8.064%
* Express Air Drilling, Inc.	5.040%
* Wes-Tex Drilling Company	5.040%
* Northbrook Business Center	5.040%
* Burnett Oil Company	8.064%
* Merlyn W. Dahlin	1.610%
* Charles P. Davis	1.610%
David L. Henderson	0.806%
Michael J. Havel	0.806%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	8.270%
Santa Fe Exploration Co.	12.500%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 20 - OVERRIDING ROYALTY OWNERS UNDER TRACT 14

Marc H. Lowrance, Jr.	0.907500%
Bill M. Scales	0.147260%
C. W. Seely	2.614200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 21 - WORKING INTEREST OWNERS UNDER TRACT 14

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	21.790%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	6.970%
* John P. Oil Company **	2.610%
* C.E.B. Oil Company **	2.610%
* E.A.B. Oil Company **	2.620%
* P.V.B. Oil Company **	2.620%
* Houston & Emma Hill Trust Estate ***	8.714%
* Express Air Drilling, Inc.	5.450%
* Wes-Tex Drilling Company	5.450%
* Northbrook Business Center	5.450%
* Burnett Oil Company	8.714%
* Merlyn W. Dahlin	1.740%
* Charles P. Davis	1.740%
David L. Henderson	0.871%
Michael J. Havel	0.871%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	8.920%
Mary F. Buckler	3.000%
Roger W. Moore	3.000%

\* Subject to a 25% reversionary working interest at payout.  
\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.  
\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 22 - OVERRIDING ROYALTY OWNERS UNDER TRACT 15

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.162995%

NOTE 23 - WORKING INTEREST OWNERS UNDER TRACT 15

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%
* Subject to a 25% reversionary working interest at payout.	
** Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.	
*** Subject to the Bill M. Scales ORRI.	

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 24 - OVERRIDING ROYALTY OWNERS UNDER TRACT 16

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.162995%

NOTE 25 - WORKING INTEREST OWNERS UNDER TRACT 16

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

EXHIBIT "C" TO UNIT AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

SCHEDULE OF TRACT PARTICIPATION

<u>TRACT NUMBER</u>	<u>PERCENTAGE TRACT PARTICIPATION</u>
1	18.766809
2	18.361943
3	0.313567
4	2.439147
5	5.263377
6	1.412976
7	1.199906
8	3.767296
9	9.860809
10	0.348311
11	10.023286
12	0.348311
13	2.399811
14	7.444841
15	15.344934
16	2.704676
TOTAL 16 TRACTS	<u><u>100.000000</u></u>

REVISED EXHIBITS WILL BE PROVIDED AT THE TIME OF  
HEARING WHICH CONFORM TO THE NEW UNIT  
BOUNDARIES.



00013  
PROPOSED UNIT AGREEMENT  
CENTRAL, EK QUEEN UNIT  
UTILIZING  
"ALL STATE WATERFLOOD UNIT  
AGREEMENT FORM" PER YOUR  
AUGUST 31, 1992 LETTER

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL EK QUEEN UNIT AREA  
LEA COUNTY, NEW MEXICO

EXHIBIT "C"

V. D. A. S. →

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 19 92, 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   T H A T:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the Unit Area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19. Art. 10, Sec. 45 N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap 19, Art. 10, Sec 47, N.M. Stats. 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, 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 agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Central EK Queen Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, 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 Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 100 feet above the top of the Queen Sand and 100 feet below the base the Queen Sand, said Queen Sand interval occurring between 4366 feet and 4426 feet in the General Operating Company Santa Fe State Well No 2 located 330 feet from the north line and 990 feet from the east line of Section 18, Township 18 South, Range 34 East, N.M.P.M., Lea County, New Mexico as recorded on the Welx compensated density dual spaced neutron log of said well dated January 20, 1986.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.

- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, Central EK Queen Unit, Lea County, New Mexico".
- (n) "Unit Manager" is defined as the person or corporation appointed by the Unit 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 Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 1148.40 acres, more or less.

Exhibit "A" to the extent known to Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4.     EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

- (a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefor with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:
  - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and
  - (2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
  - (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: Seely Oil Company is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR: 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 (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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, books and records, materials,



appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) 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 or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall

constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; 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 the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter

event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined in accordance with the following formula:

TRACT PARTICIPATION

$$\text{Percentage} = 90\% \text{ A/B} + 10\% \text{ C/D}$$

A = the Tract Cumulative Oil Production from the Unitized Formation as of December 31, 1990, plus an additional 5000 barrels credit for each usable Queen Well on the Tract.

B = the Unit Total Cumulative Oil Production from the Unitized Formation as of December 31, 1990 plus an additional 5000 barrels credit for each usable Queen Well in the Unit Area.

C = the acreage under each Tract.

D = the Total Acreage in the Unit Area.

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division with 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts

listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another..

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

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

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

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

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

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and

demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder as such Tract Participation is shown in Exhibit "C" or any revision thereof. 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 the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract 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. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only 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 be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil

above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled 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 Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner; and Division provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recover, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum

gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. CONSERVATION: 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 State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20: LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provision of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State 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:

- (a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every 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.

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its term 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 terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or of any applicable laws shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to each segregated portions commencing as of the effective date hereof; provided, however that 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 if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement, or so long as a portion of the 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 at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests 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 he 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer or any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22 EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratified it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Unit participation of at lease eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and

(d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before October 1, 1993, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted

authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to

this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner 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.

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

SECTION 27. NONJOINDER AND SUBSEQUENT JOINDER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owners or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from 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 a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its 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. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Unit Participation of fifty percent (50%) or more and the Commissioner.

IN WITNESS WHEREOF, the undersigned have executed this agreement on the dates evidenced by their respective certificates of acknowledgement hereof.

UNIT OPERATOR AND WORKING INTEREST OWNER

SEELY OIL COMPANY

By: \_\_\_\_\_

STATE OF

COUNTY OF

This instrument was acknowledged before me on \_\_\_\_\_  
\_\_\_\_\_ by \_\_\_\_\_,  
\_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said  
corporation.

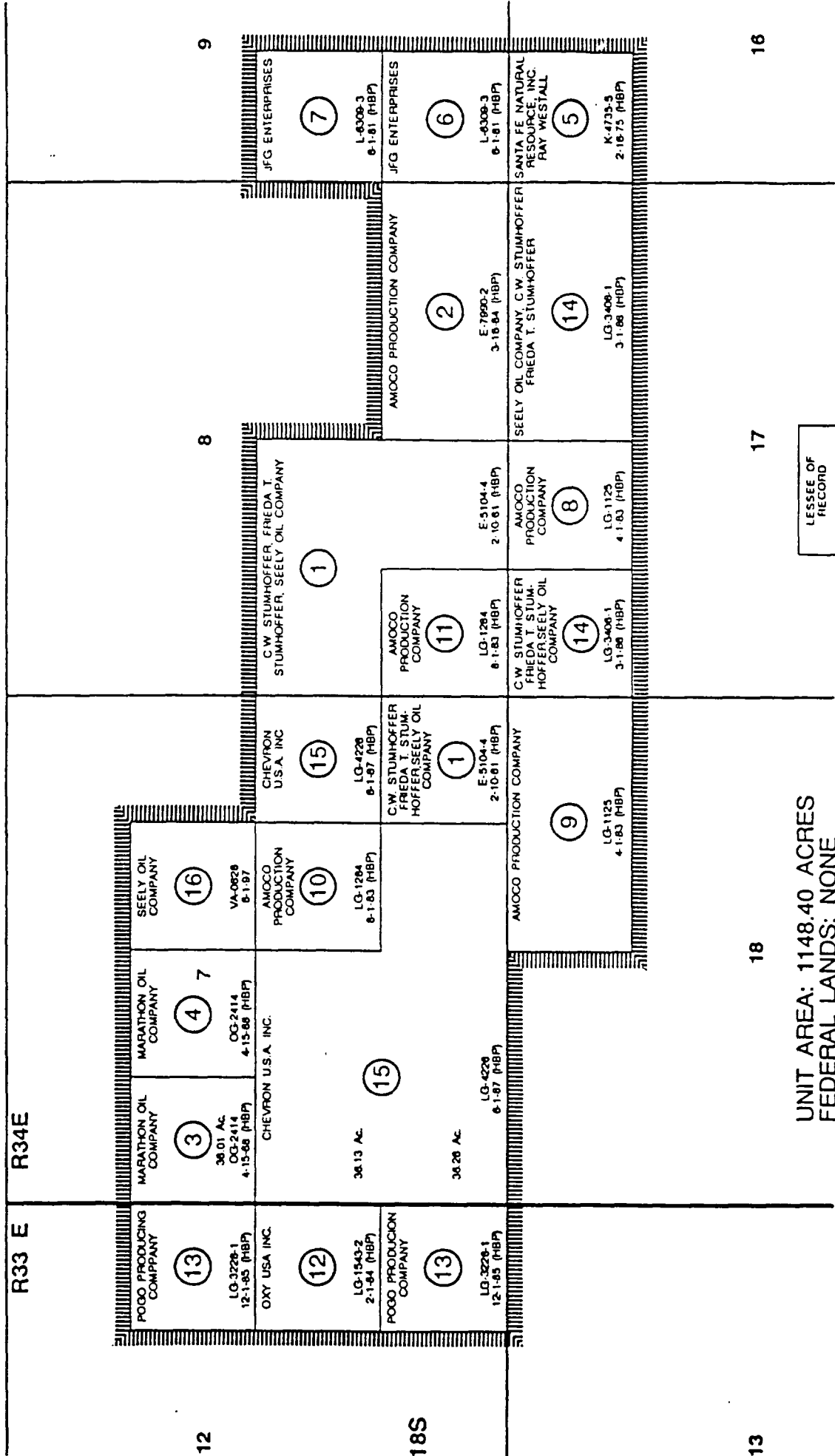
My Commission Expires:

\_\_\_\_\_  
Notary Public in and for said  
County and State

# EXHIBIT "A" TO UNIT AGREEMENT

CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

MAP OF UNIT AREA



UNIT AREA: 1148.40 ACRES  
FEDERAL LANDS: NONE  
STATE LANDS: 1148.40 ACRES  
FEE LANDS: NONE  
TRACT NUMBER: SIXTEEN (16)

LESSEE OF RECORD	TRACT	NUMBER
LEASE NUMBER		
LEASE EXPIRATION		



**EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO**

**SCHEDULE SHOWING ALL LANDS AND LEASES**

TRACT	DESCRIPTION OF LAND	NUMBER OF ACRES	LEASE NUMBER BASIC ROYALTY & EXPIRATION		PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNERSHIP	WORKING INTEREST OWNERSHIP AND PERCENTAGE
			DATE	AND				
1	SE/4 SE/4 Section 7 & SE/4 SW/4, N/2 SW/4 Section 8, T18S, R34E	160.00	E-5014-4 2-10-61(HBP)	State of New Mexico	12.50%	C. W. Stumhoff Frieda T. Stumhoff Seely Oil Company	Appendix Note 1	Appendix Note 2
2	S/2 SE/4 Section 8, T18S, R34E	80.00	E-7990-2 3-16-64(HBP)	State of New Mexico	12.50%	Amoco Production Company	Appendix Note 3	Appendix Note 4
3	Lot 2 (SW/4 NW/4) Section 7, T18S, R34E	36.01	OG-2414 4-15-68(HBP)	State of New Mexico	12.50%	Marathon Oil Co.	Appendix Note 5	Appendix Note 6
4	SE/4 NW/4 Section 7, T18S, R34E	40.00	OG-2414 4-15-68(HBP)	State of New Mexico	12.50%	Marathon Oil Co.	None	Marathon Oil Co. - 100%
5	NW/4 NW/4 Section 16, T18S, R34E	40.00	K-4735-5 2-16-75(HBP)	State of New Mexico	12.50%	Sante Fe Natural Resource, Inc. & Ray Westall	Appendix Note 7	Ray Westall - 100%
6	SW/4 SW/4 Section 9, T18S, R34E	40.00	L-6309-3 6-01-81(HBP)	State of New Mexico	12.50%	JFG Enterprise	Appendix Note 8	Appendix Note 9
7	NW/4 SW/4 Section 9, T18S, R34E	40.00	L-6309-3 6-01-81(HBP)	State of New Mexico	12.50%	JFG Enterprise	Appendix Note 10	Appendix Note 11
8	NE/4 NW/4 Section 17, T18S, R34E	40.00	LG-1125 4-01-83(HBP)	State of New Mexico	12.50%	Amoco Production Company	Appendix Note 12	Appendix Note 13
9	N/2 NE/4 Section 18, T18S, R34E	80.00	LG-1125 4-01-83(HBP)	State of New Mexico	12.50%	Amoco Production Company	Appendix Note 14	Appendix Note 15

**EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL EX QUEEN UNIT  
LEA COUNTY, NEW MEXICO**

**SCHEDULE SHOWING ALL LANDS AND LEASES**

TRACT	DESCRIPTION OF LAND	NUMBER OF ACRES	LEASE NUMBER BASIC ROYALTY & EXPIRATION		LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST OWNERSHIP
			DATE	PERCENTAGE			
10	NW/4 SE/4 Section 7, T18S, R34E	40.00	LG-1284	State of New Mexico	Amoco Production Company	Appendix Note 16	Appendix Note 17
			8-01-83(HBP)	12.50%			
11	SW/4 SW/4 Section 8, T18S, R34E	40.00	LG-1284	State of New Mexico	Amoco Production Company	Appendix Note 18	Appendix Note 19
			8-01-83(HBP)	12.50%			
12	NE/4 SE/4 Section 12, T18S, R33E	40.00	LG-1543-2	State of New Mexico	OXY USA Inc.	None	OXY USA Inc. 85% Pogo Producing Company - 15%
			2-01-84(HBP)	12.50%			
13	SE/4 SE/4 & SE/4 NE/4 Section 12, T18S, R33E	80.00	LG-3228-1	State of New Mexico	Pogo Producing Company	None	OXY USA Inc. 85% Pogo Producing Company - 15%
			12-1-85(HBP)	12.50%			
14	NW/4 NW/4 & N/2 NE/4 Section 17, T18S, R34E	120.00	LG-3406-1	State of New Mexico	Seely Oil Company C. W. Stumhoffer Frieda T. Stumhoffer	Appendix Note 20	Appendix Note 21
			3-01-86(HBP)	12.50%			
15	Lots 3 & 4 (W/2 SW/4), E/2 SW/4, NE/4 SE/4 & SW/4 SE/4 Section 7, T18S R34E	232.39	LG-4226	State of New Mexico	Chevron U.S.A. Inc.	Appendix Note 22	Appendix Note 23
			6-01-87(HBP)	12.50%			
16	SW/4 NE/4 Section 7, T18S, R34E	40.00	VA-0628	State of New Mexico	Seely Oil Company	Appendix Note 24	Appendix Note 25
			6-01-97	12.50%			
TOTALS			0 Federal Tracts		0.00 Acres	0.00% of Unit Area	
			16 State of New Mexico Tracts		1,148.40 Acres	100.00% of Unit Area	
			0 Fee Tracts		0.00 Acres	0.00% of Unit Area	
			16 Tracts		1,148.40 Acres	100.00% of Unit Area	

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 1 - OVERRIDING ROYALTY OWNERS UNDER TRACT 1

Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.157407%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 2 - WORKING INTEREST OWNERS UNDER TRACT 1

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 3 - OVERRIDING ROYALTY OWNERS UNDER TRACT 2

Windell A. Thomason	7.500000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.143440%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 4 - WORKING INTEREST OWNERS UNDER TRACT 2

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 5 - OVERRIDING ROYALTY OWNERS UNDER TRACT 3

Marathon Oil Company	12.500000%
Dwight A. Free, Jr.	2.343750%
John E. Casey	1.171880%
Bradley A. Pomeroy	0.328130%
Hamon Operating Company	6.156250%
Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.121082%

NOTE 6 - WORKING INTEREST OWNERS UNDER TRACT 3

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 7 - OVERRIDING ROYALTY OWNERS UNDER TRACT 5

Unknown

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 8 - OVERRIDING ROYALTY OWNERS UNDER TRACT 6

Windell A. Thomason	12.500000%
David S. Googins, Jr.	1.000000%
George Weis	1.000000%
Bobby Hicks	1.000000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.134122%

NOTE 9 - WORKING INTEREST OWNERS UNDER TRACT 6

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 10 - OVERRIDING ROYALTY OWNERS UNDER TRACT 7

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.153681%

NOTE 11 - WORKING INTEREST OWNERS UNDER TRACT 7

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable	7.450%
** Trust Agreement dated June 13, 1988	
* John P. Oil Company	2.790%
**	
* C.E.B. Oil Company	2.790%
**	
* E.A.B. Oil Company	2.800%
**	
* P.V.B. Oil Company	2.800%
**	
* Houston & Emma Hill Trust Estate	9.314%
***	
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%
* Subject to a 25% reversionary working interest at payout.	
** Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.	
*** Subject to the Bill M. Scales ORRI.	



APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 12 - OVERRIDING ROYALTY OWNERS UNDER TRACT 8

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Santa Fe Exploration Co.	0.500000%
Marc H. Lowrance, Jr.	0.931500%
Bill M. Scales	0.134122%
* C. W. Seely	2.794200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 13 - WORKING INTEREST OWNERS UNDER TRACT 8

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable	7.450%
** Trust Agreement dated June 13, 1988	
* John P. Oil Company	2.790%
**	
* C.E.B. Oil Company	2.790%
**	
* E.A.B. Oil Company	2.800%
**	
* P.V.B. Oil Company	2.800%
**	
* Houston & Emma Hill Trust Estate	9.314%
***	
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%

\*Subject to a 25% reversionary working interest at payout.

\*\*Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\*Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 14 - OVERRIDING ROYALTY OWNERS UNDER TRACT 9

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Marc H. Lowrance, Jr.	0.727500%
Bill M. Scales	0.092365%
* C. W. Seely	1.910610%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 15 - WORKING INTEREST OWNERS UNDER TRACT 9

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	15.920%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	5.100%
** John P. Oil Company	1.910%
** C.E.B. Oil Company	1.910%
** E.A.B. Oil Company	1.910%
** P.V.B. Oil Company	1.910%
*** Houston & Emma Hill Trust Estate	6.370%
* Express Air Drilling, Inc.	3.980%
* Wes-Tex Drilling Company	3.980%
* Northbrook Business Center	3.980%
* Burnett Oil Company	6.370%
* Merlyn W. Dahlin	1.270%
* Charles P. Davis	1.270%
David L. Henderson	0.638%
Michael J. Havel	0.639%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	6.530%
Frances Buckler	4.375%
Roger W. Moore	4.375%
J. C. Maddux	2.734%
Thomas J. Maddux	5.469%
Santa Fe Exploration Co.	7.81250%
Armstrong Energy Corp.	1.87500%
Judy Harris	1.40625%
Laurelind Corp	1.40625%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 16 - OVERRIDING ROYALTY OWNERS UNDER TRACT '10

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Santa Fe Exploration Co.	0.500000%
Marc H. Lowrance, Jr.	0.806500%
Bill M. Scales	0.116930%
* C. W. Seely	2.419200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 17 - WORKING INTEREST OWNERS UNDER TRACT 10

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.040%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.370%
* John P. Oil Company **	2.760%
* C.E.B. Oil Company **	2.760%
* E.A.B. Oil Company **	2.760%
* P.V.B. Oil Company **	2.760%
* Houston & Emma Hill Trust Estate ***	9.220%
* Express Air Drilling, Inc.	5.760%
* Wes-Tex Drilling Company	5.760%
* Northbrook Business Center	5.760%
* Burnett Oil Company	9.220%
* Merlyn W. Dahlin	1.840%
* Charles P. Davis	1.840%
David L. Henderson	0.921%
Michael J. Havel	0.921%
C. W. Stumhoffer & Frieda T. Stumhoffer	7.840%
C. W. Seely	9.468%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 18 - OVERRIDING ROYALTY OWNERS UNDER TRACT 11

Amoco Production Company	10.500000%
Thomas R. Smith	0.750000%
John Saleh	0.250000%
Linda W. Smith	0.500000%
Marc H. Lowrance, Jr.	0.806500%
Bill M. Scales	0.116930%
* C. W. Seely	2.419200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 19 - WORKING INTEREST OWNERS UNDER TRACT 11

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	20.160%
* Patricia Dean Boswell, Trustee under Revocable	6.450%
** Trust Agreement dated June 13, 1988	
** John P. Oil Company	2.420%
** C.E.B. Oil Company	2.420%
** E.A.B. Oil Company	2.420%
** P.V.B. Oil Company	2.420%
*** Houston & Emma Hill Trust Estate	8.064%
* Express Air Drilling, Inc.	5.040%
* Wes-Tex Drilling Company	5.040%
* Northbrook Business Center	5.040%
* Burnett Oil Company	8.064%
* Merlyn W. Dahlin	1.610%
* Charles P. Davis	1.610%
David L. Henderson	0.806%
Michael J. Havel	0.806%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	8.270%
Santa Fe Exploration Co.	12.500%

\* Subject to a 25% reversionary working interest at payout.

\*\* Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.

\*\*\* Subject to the Bill M. Scales ORRI.

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 20 - OVERRIDING ROYALTY OWNERS UNDER TRACT 14

Marc H. Lowrance, Jr.	0.907500%
Bill M. Scales	0.147260%
C. W. Seely	2.614200%

\* ORRI converts to 25% reversionary WI at payout.

NOTE 21 - WORKING INTEREST OWNERS UNDER TRACT 14

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	21.790%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	6.970%
* John P. Oil Company **	2.610%
* C.E.B. Oil Company **	2.610%
* E.A.B. Oil Company **	2.620%
* P.V.B. Oil Company **	2.620%
* Houston & Emma Hill Trust Estate ***	8.714%
* Express Air Drilling, Inc.	5.450%
* Wes-Tex Drilling Company	5.450%
* Northbrook Business Center	5.450%
* Burnett Oil Company	8.714%
* Merlyn W. Dahlin	1.740%
* Charles P. Davis	1.740%
David L. Henderson	0.871%
Michael J. Havel	0.871%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	8.920%
Mary F. Buckler	3.000%
Roger W. Moore	3.000%
* Subject to a 25% reversionary working interest at payout.	
** Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.	
*** Subject to the Bill M. Scales ORRI.	

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 22 - OVERRIDING ROYALTY OWNERS UNDER TRACT 15

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.162995%

NOTE 23 - WORKING INTEREST OWNERS UNDER TRACT 15

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%
* Subject to a 25% reversionary working interest at payout.	
** Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.	
*** Subject to the Bill M. Scales ORRI.	

APPENDIX TO EXHIBIT "B" TO UNIT AGREEMENT  
CENTRAL E.K. QUEEN UNIT  
LEA COUNTY, NEW MEXICO

NOTE 24 - OVERRIDING ROYALTY OWNERS UNDER TRACT 16

Marc H. Lowrance, Jr.	0.937500%
Bill M. Scales	0.162995%

NOTE 25 - WORKING INTEREST OWNERS UNDER TRACT 16

* J. Cleo Thompson & James Cleo Thompson, Jr., a partnership	23.290%
* Patricia Dean Boswell, Trustee under Revocable ** Trust Agreement dated June 13, 1988	7.450%
* John P. Oil Company **	2.790%
* C.E.B. Oil Company **	2.790%
* E.A.B. Oil Company **	2.800%
* P.V.B. Oil Company **	2.800%
* Houston & Emma Hill Trust Estate ***	9.314%
* Express Air Drilling, Inc.	5.820%
* Wes-Tex Drilling Company	5.820%
* Northbrook Business Center	5.820%
* Burnett Oil Company	9.314%
* Merlyn W. Dahlin	1.860%
* Charles P. Davis	1.860%
David L. Henderson	0.931%
Michael J. Havel	0.931%
C. W. Stumhoffer & Frieda T. Stumhoffer	6.860%
C. W. Seely	9.550%
* Subject to a 25% reversionary working interest at payout.	
** Subject to prorata share of the Marc H. Lowrance, Jr. ORRI.	
*** Subject to the Bill M. Scales ORRI.	

EXHIBIT "C" TO UNIT AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

SCHEDULE OF TRACT PARTICIPATION

<u>TRACT NUMBER</u>	<u>PERCENTAGE TRACT PARTICIPATION</u>
1	18.766809
2	18.361943
3	0.313567
4	2.439147
5	5.263377
6	1.412976
7	1.199906
8	3.767296
9	9.860809
10	0.348311
11	10.023286
12	0.348311
13	2.399811
14	7.444841
15	15.344934
16	2.704676
TOTAL 16 TRACTS	<u><u>100.000000</u></u>



REVISED EXHIBITS WILL BE PROVIDED AT THE TIME OF  
HEARING WHICH CONFORM TO THE NEW UNIT  
BOUNDARIES.

UNIT OPERATING AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CENTRAL EK QUEEN UNIT AREA  
LEA COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

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LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT  
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UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of December, 1992, by and between the parties who execute or ratify this Agreement;

WITNESSETH

THAT, WHEREAS, the parties hereto as Working Interest Owners have executed as of the date hereof, that certain Unit Agreement for the development and operation of the Central EK Queen Unit, Lea County, New Mexico, hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area therein defined;

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event that there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2

EXHIBITS

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

- 2.1.1 Exhibits "A", "B" and "C" of the Unit Agreement.
- 2.1.2 Exhibit "D" attached hereto, is a schedule showing total Unit Participation of each Working Interest Owner.
- 2.1.3 Exhibit "E" attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Agreement and Exhibit "E", this Agreement shall prevail.

2.1.4 Exhibit "F" attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.

2.2 Revision of Exhibits. Whenever Exhibits "A", "B" and "C" are revised, Exhibit "D" shall be revised accordingly, such revision to be effective as of the effective date of revised Exhibits "A", "B" and "C".

### ARTICLE 3

#### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the development and operations of the Unit Area pursuant to this Agreement and the Unit Agreement. In the exercise of such power each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to, the following:

- 3.2.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance or secondary recovery program to be employed.
- 3.2.2 Drilling of Wells. The drilling of any wells within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.
- 3.2.3 Well Workovers and Change of Status. The workover, recompletion, repair, abandonment, or change of status of any well in the Unit Area or use of any such well for injection or other purposes. The Unit Operator shall be responsible for performing such work and such work shall be done at Unit Expense.
- 3.2.4 Expenditures. Making of any expenditure in excess of Ten Thousand Dollars (\$10,000.00); provided that approval by Working Interest Owners of the drilling, reworking, drilling deeper, or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing, and equipping the same, including necessary flow lines, separators and lease



tankage; provided, however, that in case of blow-out, explosion, fire, flood or other sudden emergencies, Unit Operator may take steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life or property, but that Unit Operator shall, as promptly as possible, report the emergency to the Working Interest Owners.

3.2.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similiar thereto being Five Thousand Dollars (\$5,000.00) or more.

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

3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator;
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, unless such audit is conducted at the specific instance and request of Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including the Working Interest Owner designated as Unit Operator; and
- (c) be upon not less than thirty (30) days written notice to Unit Operator.

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

- 3.2.9 Technical Services. Any direct charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "E".
- 3.2.10 Appointment of Committees. The appointment of designation of committees or subcommittees necessary for the study of any problem in connection with Unit operations.
- 3.2.11 The removal of Unit Operator and the selection of a successor in accordance with Article 6.2 hereof.
- 3.2.12 The enlargement of the Unit Area.
- 3.2.13 The adjustment and readjustment of investments as required.
- 3.2.14 The termination of the Unit Agreement.

#### ARTICLE 4

##### MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate representative authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate representative may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by the Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners. No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. In the absence of protest by any qualified member of the meeting, the Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding on such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

- 4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its then percentage in Unit Participation, as shown in Exhibit "D", and such revisions thereof as may hereafter be made in accordance with the terms of this Agreement.

- 4.3.2 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 seventy-five percent (75%) or more voting interest; provided that, should any one Working Interest Owner own more than twenty-five percent (25%) voting interest, its vote must be supported by the vote of one or more Working Interest Owners having a combined voting interest of at least five percent (5%).
- 4.3.3 Vote at Meetings by Non-Attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the chairman of the meeting, provided such vote is received prior to the submission of such item to vote.
- 4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within fourteen (14) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

## ARTICLE 5

### INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

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

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

- 5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect the operation hereunder and all wells and records and data pertaining thereto.
- 5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data not ordinarily furnished by Unit Operator to all Working Interest Owners; the cost of preparing copies of said

reports shall be charged solely to the Working Interest Owner requesting the same.

5.3 Undrilled Locations. Undrilled locations on tracts committed to the Unit Area shall be drilled by the Unit Operator at Unit expense.

#### ARTICLE 6

##### UNIT OPERATOR

6.1 Initial Unit Operator. Seely Oil Company, a Texas corporation, is hereby designated as initial Unit Operator.

6.2 Resignation or Removal and Selection of Successor. The resignation or removal of Unit Operator, and the selection of a successor shall be governed by the provisions of the Unit Agreement.

#### ARTICLE 7

##### POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and duty to develop and operate the Unit Area for the production of Unitized Substances.

7.2 Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner, and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgement, considers important. Unit Operator shall not be liable for damages unless such damages result from the gross negligence or willful misconduct of Unit Operator.

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner monthly, injection and production reports for each well in the Unit, as well as periodic reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all necessary reports to governmental authorities.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) without prior approval of Working Interest Owners; provided, however, that nothing in this Article (nor in Article 3.2.4) shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life, title or extensive damage to property. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Settlements. Unit Operator may settle any single damage claim not involving an expenditure in excess of Five Thousand Dollars (\$5,000.00) provided such payment is a complete settlement of such claim. All claims in excess of \$5,000.00 must be approved by Working Interest Owners.

7.11 Nondiscrimination. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

7.12 Mathematical Errors. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Commissioner.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes. Beginning with the first of the calendar year after the effective date hereof, Unit Operator after consulting

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

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

#### ARTICLE 9

##### INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operations subject to this Agreement:

9.1.1 Insurance as set forth in Exhibit "F".

#### ARTICLE 10

##### ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells drilled through the Unitized Formation and that are completed or that may be completed in the Unitized Formation, together with the casing therein.

10.1.2 Well and Lease Equipment. Unless previously agreed upon, the tubing and rods in each such well, together with the wellhead connection thereon, and all other lease and operating equipment used in the operation

of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit operations, and

10.1.3 Records. A copy of all production and well records pertaining to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall (at the expense of the joint account, and as of the effective date) inventory all well and lease equipment delivered to the Unit Operator as provided in Article 10.1.1 and 10.1.2, except that casing shall be given no value. The inventory will include all tangible property classified as controllable equipment. For the purpose of inventory and adjustment of investment, sucker rods and tubing under 2 inches in the wells will also be considered as controllable but will not be considered controllable in future accounting. Non-controllable equipment except items listed above will not be included on the inventory but may nevertheless be taken over by the Unit if in use on the property. The distinction between controllable and non-controllable equipment will be based on the latest material classification manual published by the Council of Petroleum Accountants Society of North America. The condition of the equipment will be indicated on the inventory and priced in accordance with the basis prescribed in Section IV of Exhibit "E" attached. The inventory and evaluation will be presented to the Working Interest Owners within ninety (90) days after the taking of the inventory. Upon approval by the Working Interest Owners of the inventory and evaluation of the equipment and personal property, the Unit Operator will furnish each Working Interest Owner a copy thereof showing only those items which it has been decided to retain and the value of each item.

10.3 Investment Adjustment. Upon approval of such inventory and evaluation by Working Interest Owners, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Article 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Article 10.1.2 by such Working Interest Owner's Unit Participation as shown in Exhibit "D". If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above. Pricing of inventory will be in accordance with Section IV of Exhibit "E" hereof.

10.4. General Facilities. The acquisition of warehouse, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for operations hereunder shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

## ARTICLE 11

### DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit Participation, shown on Exhibit "D". All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit "E".

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year, and on or before the first day of each November thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings that the estimated costs and expenses for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time wherever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportion of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall



be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owner shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need be segregated by Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit equipment, as security for payment of its share of Unit expense, together with interest thereon at the rate of ten percent (10%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in payment of its share of Unit expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Oil and Gas Rights, as used herein, means the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances or to share in the production so obtained or the proceeds hereof.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit expenses shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be drilled on a competitive basis at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment in the drilling of wells, but in such event, the charge therefor shall not exceed the prevailing rate in the area, and such work shall be performed by Unit Operator under the same terms and conditions as customary and usual in the area in contracts of independent contractors doing work of a similar nature.

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement to the extent provided below, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participation.

11.8.1 Burden of 1/8th Royalty. The difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

11.8.2 Burden of Excess Royalty and Other Interests. Any uncommitted Royalty Interest in excess of one-eighth (1/8) shall be borne solely by the Working Interest Owner contributing such interest.

## ARTICLE 12

### OIL IN LEASE TANKAGE ON EFFECTIVE DATE

12.1 Gauge of Merchantable Oil. Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of 7:00 a.m. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all Royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts.

## ARTICLE 13

### OPERATION OF NON-UNITIZED FORMATION

13.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to

prevent unreasonable interference with operations hereunder. No Working Interest Owner, other than Unit Operator, shall produce Unitized Substances through any well drilled or operated by it. If any such other Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected. No dual completions in the Unitized Formation and some other formation shall be permitted.

#### ARTICLE 14

##### TITLES

14.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest set forth opposite its name in Exhibit "B" of the Unit Agreement and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss and liability for damages due to failure (in whole or in part) of its title to any such interests, except failure of title arising out of operations hereunder; provided that such warranty and indemnity shall be limited to an amount equal to the net value that has been received from the sale of Unitized Substances attributed to the interest as to which title failed. In the event of such failure, the interest of the parties hereto shall be revised to reflect the true Unit participation. Each failure of title shall be effective, insofar as this Agreement is concerned, as of 7:00 a.m. on the first day after such title failure is determined and there shall be no retroactive adjustment of development and operating expenses, Unitized Substances or the proceeds therefrom, as a result of title failure.

14.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract by reason of Unit operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed, in relation to the Unit Participation of the other Working Interest Owners at the time of the title failure.

#### ARTICLE 15

##### LIABILITY, CLAIMS AND SUITS

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

15.2 Settlements. In the event claim is made against a 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. Unit Operator shall assume and take over the further handling of 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. Unit Operator may settle any single damage claim or suit involving Unit operations but not involving an expenditure of more than Five Thousand Dollars (\$5,000.00), provided the payment is in complete settlement of such claim or suit.

#### ARTICLE 16

##### INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision. Each party hereto hereby irrevocably elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Unit Operator is hereby irrevocably authorized and directed to execute on behalf of each party hereto such additional or further evidence of said election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service and regulations issued under said Subchapter K, including all of the returns, statements and data required, and Unit Operator shall furnish each party hereto a copy thereof. Should said regulations require each party to execute such further evidence, each party hereto irrevocably agrees to execute or join in the execution thereof. Each party hereto irrevocably agrees not to give any notices or take any action inconsistent with the elections hereby made and each hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

#### ARTICLE 17

##### NOTICES

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

ARTICLE 18

WITHDRAWAL OF WORKING INTEREST OWNER AND CREATION OF NEW INTEREST

18.1 Withdrawal. If any Working Interest Owner so desires, it may withdraw from this Agreement by conveying, assigning and transferring, without warranty of title (either expressed or implied) to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area, insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Unit Participations, and the Unit Operator shall recompute the percentage of participation to include this change and furnish the remaining Working Interest Owners with a corrected interest sheet. 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 all jointly-owned equipment, casing and other personal property, the fair salvage value thereof, as estimated and fixed by the remaining Working Interest Owners.

18.2 Creation of a New Interest. If any Working Interest Owner shall, after executing this Agreement, create any overriding royalty, production payment or other similar interest, hereafter referred to as "New Interest", out of its interest subject to this Agreement, such new interest shall be subject to all the terms and provisions of this Agreement and the Unit Agreement.

ARTICLE 19

ABANDONMENT OF WELLS

19.1 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 former Working Interest Owner of the Tract on which such well is located, together with the amount (as estimated and fixed

by the Working Interest Owners) to be the net salvage value of the equipment in and on said well contributed by Working Interest Owners under Article 10.1.1. Said former Working Interest Owner shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of its 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 former Working Interest Owner of the Tract has so notified Unit Operator of its desire to take over such well, it shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount of the net salvage value above described. At the same time the former Working Interest Owner 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 well is ready for abandonment) to plug and abandon well in a workmanlike manner in accordance with applicable laws and regulations.

19.2 Plugging. In the event the former Working Interest Owner of a Tract does not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations.

## ARTICLE 20

### EFFECTIVE DATE AND TERM

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

20.2 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 plugged and abandoned or turned over to Working Interest Owners in accordance with Article 21 hereof, and all personal and 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 shall have been a final accounting.

## ARTICLE 21

### TERMINATION OF UNIT AGREEMENT

21.1 Termination. Upon termination of the Unit Agreement the following shall occur:

21.1.1 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.

- 21.1.2 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 the credit of the joint account, the net salvage value of the equipment in and on the well, contributed by such Working Interest Owners under Article 10.1.1 and agreeing in writing to properly plug the well at such time as it is abandoned.
- 21.1.3 Salvaging Wells. With respect to all wells not taken over by the Working Interest Owners, Unit Operator shall, at the joint expense of Working Interest Owners, salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and shall cause such wells to be properly plugged and abandoned.
- 21.1.4 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 Unit Participation, as shown on Exhibit "D".

## ARTICLE 22

### COUNTERPART EXECUTION

22.1 Execution by Separate Counterparts or Ratifications. This agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

## ARTICLE 23

### SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

No party hereto shall assign or convey less than his entire interest in any Tract committed hereto unless such leased interest,

if any, is an undivided interest in such entire tract; and should any interest committed hereto be or become owned by three (3) or more parties, then all of such parties shall be obligated to appoint a single agent to represent such interest for the purpose of accepting billings and receiving payments, if any, arising hereunder, or under the Unit Agreement, and for voting upon any matter which is the subject of determination by the Working Interest Owners.

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

SEELY OIL COMPANY

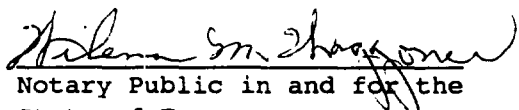
By   
C. W. Seely

Its President

UNIT OPERATOR AND WORKING  
INTEREST OWNER

STATE OF TEXAS       )  
COUNTY OF TARRANT )

This instrument was acknowledged before me on this 1st day of December, 1992, by C. W. Seely, President of SEELY OIL COMPANY, a Texas corporation, on behalf of said corporation.

  
Notary Public in and for the  
State of Texas

My Commission Expires:

5/31/93

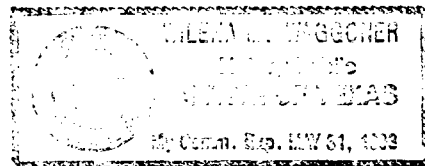




EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

J. Cleo Thompson and James Cleo Thompson, Jr.  
a partnership

Tract 1	4.370790
Tract 2	4.276497
Tract 3	0.073030
Tract 6	0.329082
Tract 7	0.279458
Tract 8	0.877403
Tract 9	1.569841
Tract 10	0.080251
Tract 11	2.020694
Tract 14	1.622231
Tract 15	3.573835
Tract 16	0.629919

Total J. Cleo Thompson and James Cleo Thompson, Jr. a partnership	19.703031
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Patricia Dean Boswell, Trustee under  
Revocable Trust Agreement dated  
6/13/88

Tract 1	1.398127
Tract 2	1.367965
Tract 3	0.023361
Tract 6	0.105267
Tract 7	0.089393
Tract 8	0.280663
Tract 9	0.502901
Tract 10	0.025671
Tract 11	0.646502
Tract 14	0.518905
Tract 15	1.143198
Tract 16	0.201498

Total Patricia Dean Boswell, Trustee under Revocable Trust Agreement dated 6/13/88	6.303451
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

John P. Oil Company

Tract 1	0.523594
Tract 2	0.512298
Tract 3	0.008748
Tract 6	0.039422
Tract 7	0.033478
Tract 8	0.105108
Tract 9	0.188341
Tract 10	0.009613
Tract 11	0.242563
Tract 14	0.194310
Tract 15	0.428124
Tract 16	0.075460

Total John P. Oil Company	2.361059
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C.E.B. Oil Company

Tract 1	0.523594
Tract 2	0.512298
Tract 3	0.008748
Tract 6	0.039422
Tract 7	0.033477
Tract 8	0.105108
Tract 9	0.188341
Tract 10	0.009613
Tract 11	0.242563
Tract 14	0.194310
Tract 15	0.428124
Tract 16	0.075460

Total C.E.B. Oil Company	2.361058
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

E.A.B. Oil Company

Tract 1	0.525471
Tract 2	0.514135
Tract 3	0.008780
Tract 6	0.039563
Tract 7	0.033597
Tract 8	0.105484
Tract 9	0.188341
Tract 10	0.009613
Tract 11	0.242563
Tract 14	0.195055
Tract 15	0.429658
Tract 16	0.075731

Total E.A.B. Oil Company	2.367991
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P.V.B. Oil Company

Tract 1	0.525471
Tract 2	0.514134
Tract 3	0.008780
Tract 6	0.039563
Tract 7	0.033597
Tract 8	0.105484
Tract 9	0.188341
Tract 10	0.009613
Tract 11	0.242563
Tract 14	0.195055
Tract 15	0.429658
Tract 16	0.075731

Total P.V.B. Oil Company	2.367990
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Houston Hill and Emma Hill Trust Estate	
Tract 1	1.747941
Tract 2	1.710231
Tract 3	0.029206
Tract 6	0.131605
Tract 7	0.111759
Tract 8	0.350886
Tract 9	0.628134
Tract 10	0.032114
Tract 11	0.808278
Tract 14	0.648744
Tract 15	1.429227
Tract 16	0.251914
Total Houston Hill and Emma Hill Trust Estate	7.880039

Express Air Drilling, Inc.	
Tract 1	1.092228
Tract 2	1.068665
Tract 3	0.018250
Tract 6	0.082235
Tract 7	0.069835
Tract 8	0.219257
Tract 9	0.392460
Tract 10	0.020063
Tract 11	0.505174
Tract 14	0.405744
Tract 15	0.893075
Tract 16	0.157412
Total Express Air Drilling, Inc.	4.924398

EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Wes-Tex Drilling Company

Tract 1	1.092228
Tract 2	1.068665
Tract 3	0.018249
Tract 6	0.082235
Tract 7	0.069835
Tract 8	0.219257
Tract 9	0.392460
Tract 10	0.020063
Tract 11	0.505174
Tract 14	0.405744
Tract 15	0.893075
Tract 16	0.157412

Total Wes-Tex Drilling Company	4.924397
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Northbrook Business Center

Tract 1	1.092228
Tract 2	1.068665
Tract 3	0.018250
Tract 6	0.082235
Tract 7	0.069835
Tract 8	0.219257
Tract 9	0.392460
Tract 10	0.020063
Tract 11	0.505174
Tract 14	0.405744
Tract 15	0.893075
Tract 16	0.157412

Total Northbrook Business Center	4.924398
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Burnett Oil Company

Tract 1	1.747940
Tract 2	1.710231
Tract 3	0.029206
Tract 6	0.131605
Tract 7	0.111759
Tract 8	0.350886
Tract 9	0.628134
Tract 10	0.032114
Tract 11	0.808278
Tract 14	0.648743
Tract 15	1.429227
Tract 16	0.251913

Total Burnett Oil Company	7.880036
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Merlyn W. Dahlin

Tract 1	0.349063
Tract 2	0.341532
Tract 3	0.005832
Tract 6	0.026281
Tract 7	0.022318
Tract 8	0.070072
Tract 9	0.125232
Tract 10	0.006409
Tract 11	0.161375
Tract 14	0.129540
Tract 15	0.285416
Tract 16	0.050307

Total Merlyn W. Dahlin	1.573377
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Charles P. Davis

Tract 1	0.349063
Tract 2	0.341532
Tract 3	0.005832
Tract 6	0.026282
Tract 7	0.022318
Tract 8	0.070072
Tract 9	0.125232
Tract 10	0.006409
Tract 11	0.161375
Tract 14	0.129540
Tract 15	0.285416
Tract 16	0.050307

Total Charles P. Davis	1.573378
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David L. Henderson

Tract 1	0.174719
Tract 2	0.170950
Tract 3	0.002919
Tract 6	0.013155
Tract 7	0.011171
Tract 8	0.035073
Tract 9	0.062912
Tract 10	0.003208
Tract 11	0.080788
Tract 14	0.064845
Tract 15	0.142861
Tract 16	0.025181

Total David Henderson	0.787782
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Michael J. Havel

Tract 1	0.174719
Tract 2	0.170950
Tract 3	0.002919
Tract 6	0.013155
Tract 7	0.011171
Tract 8	0.035073
Tract 9	0.063011
Tract 10	0.003208
Tract 11	0.080788
Tract 14	0.064845
Tract 15	0.142861
Tract 16	0.025181

Total Michael J. Havel	0.787881
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C. W. Stumhoffer and Frieda T. Stumhoffer

Tract 1	1.287403
Tract 2	1.259629
Tract 3	0.021511
Tract 6	0.096930
Tract 7	0.082314
Tract 8	0.258436
Tract 9	0.676451
Tract 10	0.027308
Tract 11	0.687597
Tract 14	0.510716
Tract 15	1.052663
Tract 16	0.185541

Total C. W. Stumhoffer and Frieda T. Stumhoffer	6.146499
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EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

C. W. Seely	
Tract 1	1.792230
Tract 2	1.753566
Tract 3	0.029946
Tract 6	0.134939
Tract 7	0.114591
Tract 8	0.359777
Tract 9	0.643911
Tract 10	0.032978
Tract 11	0.828926
Tract 14	0.664080
Tract 15	1.465441
Tract 16	0.258297
Total C. W. Seely	8.078682
Frances Buckler	
Tract 9	0.431410
Tract 14	0.223345
Total Frances Buckler	0.654755
Roger W. Moore	
Tract 9	0.431410
Tract 14	0.223345
Total Roger W. Moore	0.654755
J. C. Maddux	
Tract 9	0.269595
Total J. C. Maddux	0.269595

EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Thomas J. Maddux	
Tract 9	0.539288
Total Thomas J. Maddux	0.539288
Santa Fe Exploration Co.	
Tract 9	0.770376
Tract 11	1.252911
Total Santa Fe Exploration Co.	2.023287
Armstrong Energy Corp.	
Tract 9	0.184891
Total Armstrong Energy Corp.	0.184891
Judy Harris	
Tract 9	0.138668
Total Judy Harris	0.138668
Laurelind Corp.	
Tract 9	0.138668
Total Laurelind Corp.	0.138668
Ray Westall	
Tract 5	5.263377
Total Ray Westall	5.263377

EXHIBIT "D" TO  
UNIT OPERATING AGREEMENT  
CENTRAL EK QUEEN UNIT

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNERS

Marathon Oil Company	
Tract 4	2.439147
Total Marathon Oil Company	2.439147
 Oxy USA, Inc.	
Tract 12	0.296064
Tract 13	2.039839
Total Oxy USA, Inc.	2.335903
 Pogo Producing Company	
Tract 12	0.052247
Tract 13	0.359975
Total Pogo Producing Company	0.412219
 UNIT TOTAL	100.000000

EXHIBIT

" E "

Attached to and made a part of Unit Operating Agreement dated December 1, 1992, covering  
the Central EK Queen Unit, Lea County, New Mexico

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Overton Park Bank, Fort Worth, Texas, on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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1 5. Audits

2  
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit  
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four  
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not  
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in  
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make  
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience  
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this  
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year  
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made  
12 at the expense of those Non-Operators approving such audit.

13  
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15  
16 6. Approval By Non-Operators

17  
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of  
19 this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no  
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the  
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

22  
23  
24 II. DIRECT CHARGES

25  
26 Operator shall charge the Joint Account with the following items:

27  
28 1. Ecological and Environmental

29  
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy  
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or  
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.

33  
34 2. Rentals and Royalties

35  
36 Lease rentals and royalties paid by Operator for the Joint Operations.

37  
38 3. Labor

39  
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of  
41 Joint Operations.

42  
43 (2) Salaries of First Level Supervisors in the field.

44  
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are  
46 excluded from the overhead rates.

47  
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly  
49 employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

50  
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to  
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.  
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"  
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If  
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56  
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are  
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

59  
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under  
61 Paragraph 3A of this Section II.

62  
63 4. Employee Benefits

64  
65 Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement,  
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the  
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent  
68 most recently recommended by the Council of Petroleum Accountants Societies.

1 5. Material

2  
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such  
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is  
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be  
6 avoided.  
7

8 6. Transportation

9  
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11  
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.  
15

16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
20 Parties.  
21

22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
24 amount most recently recommended by the Council of Petroleum Accountants Societies.  
25

26 7. Services

27  
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.  
33

34 8. Equipment and Facilities Furnished By Operator

35  
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
39 exceed \_\_\_\_\_ percent ( \_\_\_\_\_ %) per annum. Such rates shall not exceed average commercial  
40 rates currently prevailing in the immediate area of the Joint Property.  
41

42 B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
44 published by the Petroleum Motor Transport Association.  
45

46 9. Damages and Losses to Joint Property

47  
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
51 soon as practicable after a report thereof has been received by Operator.  
52

53 10. Legal Expense

54  
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and  
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to  
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of  
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be  
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section  
60 I, Paragraph 3.  
61

62 11. Taxes

63  
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
68 hereto in accordance with the tax value generated by each party's working interest.  
69  
70

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- ( ) shall be covered by the overhead rates, or  
( X ) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- ( ) shall be covered by the overhead rates, or  
( X ) shall not be covered by the overhead rates. An operator fee of \$250.00 per day shall apply adjusted annually per paragraph 3 below

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 3,500.00 (one month minimum)  
(Prorated for less than a full month)

Producing Well Rate \$ 250.00 (for producing and water injection wells)

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

2. Overhead - Major Construction TO BE NEGOTIATED

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint



Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_:

- A. \_\_\_\_\_ % of first \$100,000 or total cost if less, plus  
B. \_\_\_\_\_ % of costs in excess of \$100,000 but less than \$1,000,000, plus  
C. \_\_\_\_\_ % of costs in excess of \$1,000,000.

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

### 3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. \_\_\_\_\_ % of total costs through \$100,000; plus  
B. \_\_\_\_\_ % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
C. \_\_\_\_\_ % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

### 4. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

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

##### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 3/4 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

1 pound Oil Field Haulers Association interstate truck rate shall be used.

2  
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.

6  
7 (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.

16  
17 (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.

22  
23 (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.

26  
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

30  
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

34  
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48 (2) Material used on and moved from the Joint Property

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or

52  
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material.

55  
56 (3) Material not used on and moved from the Joint Property

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph I.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

**4. Expense of Conducting Inventories**

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

## EXHIBIT "F"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT dated December 1, 1992, covering the Central EK Queen Unit, Lea County, New Mexico

### INSURANCE

Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

1. Workmen's compensation and occupational disease insurance, as required by the laws of the state or states in which operations will be conducted, and employer's liability insurance with a limit of not less than \$100,000.00.
2. Comprehensive general public liability insurance, with contractual coverage, in an amount of \$500,000.00 for each occurrence for personal injuries and death.
3. Automobile public liability insurance covering all automotive equipment used in performance of work under this Agreement in the amount of \$500,000.00 for each person and \$500,000.00 for each accident for personal injuries and death, and \$500,000.00 for each accident for loss 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.

Operator shall not be liable to Non-Operators for loss suffered on account of the insufficiency of insurance carried, the insurer with whom carried, nor shall Operator be liable to Non-Operator for any loss accruing by reason of Operator's inability to provide or maintain the insurance above-mentioned; provided, however, that if at any time during the life of this agreement Operator is unable to obtain or maintain such insurance, Operator shall promptly notify Non-Operators in writing of such fact.