LAW OFFICES

LOSEE, CARSON & DICKERSON, P. A.

300 AMERICAN HOME BUILDING
P. O. DRAWER 239
ARTESIA, NEW MEXICO 88211-0239

AREA CODE 505
746-3508

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON
DAVID R. VANDIVER
ELIZABETH LOSEE
REBECCA DICKERSON

August 31, 1984

Case 8354

Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

Enclosed for filing, please find three copies of the following Applications of Yates Petroleum Corporation for Approval of Unit Agreements:

1. One Tree Unit Area, covering approximately 176,800 acres of state, federal and fee lands in Chaves and Otero Counties, New Mexico.

2. Caja Del Rio Grande Unit Area, covering approximately 122,600 acres of state, federal and fee lands in Santa Fe and Sandoval Counties, New Mexico.

3. La Mesa Unit Area, covering approximately 80,000 acres of state, federal and fee lands in Santa Fe County, New Mexico.

We ask that these matters be set for hearing before an Examiner, and that we be furnished with a docket of said hearings.

Thank you.

Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.

Chad Dickerson

Chad Dickerson

CD:pvm
Enclosures

cc w/enclosure: Mrs. Janet Richardson

BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF YATES PETROLEUM CORPORATION FOR APPROVAL OF A UNIT AGREEMENT, LA MESA UNIT AREA, SANTA FE COUNTY, NEW MEXICO

CASE NO. 8354

APPLICATION

COMES NOW Yates Petroleum Corporation, a New Mexico corporation, by its attorneys, pursuant to §70-2-1, et seq., N.M.S.A. (1978), and requests that the Division enter an order approving a unit agreement, and in support hereof, states:

1. Yates Petroleum Corporation, as operator, proposes the formation of an exploratory unit, consisting of state, federal and fee lands covering approximately 80,000 acres in Townships 15, 16, 17 and 18 North, and Ranges 8 and 9 East, in Santa Fe County, New Mexico.

2. The proposed Unit Agreement and Unit Operating Agreement covering the manner in which the unit will be supervised and managed, and costs allocated and paid, will be submitted at hearing on this Application.

3. The granting of this Application will be in the interest of conservation, will prevent waste and protect correlative rights.

WHEREFORE, Applicant prays that this matter be set for hearing, and upon hearing, the Division enter its order approving operator's Unit Agreement for the La Mesa Unit Area hereinabove defined, and for such other and further relief as to the Division seems proper.

YATES PETROLEUM CORPORATION

By: Chad Dickerson
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. sec. 181, et seq., and delegated to the appropriate _____ service under the authority of 43 CFR 3180, I do hereby:

A. Approve the attached agreement for the development and operation of the _____, Unit Area, State of _____.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental minimum royalty, and royalty requirements of all Federal lease committed to said agreement are hereby established altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated _____

_____
(Name and Title of authorized officer of the Bureau of Land Management)

Contract Number _____

Effective Date _____

PEYTON YATES
Case No. 8354
10/17/84 Examiner Hearing
Exhibit No. 2

INTRODUCTORY SECTION

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

Unit area La Mesa Unit
County of Santa Fe
State of New Mexico
No.

This agreement, entered into as of the 1st day of August, 1984 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. Sec. 181 et seq., authorizes Federal lessees and their representatives to unit with each other, or jointly or separately with others, in collectively adopting and operating a unit plan of development of operations of any oil and 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 (Secs. 19-10-45, 46, 47N.M. Statutes 1978 Annoted) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and,

WHEREAS the Oil Conservation Division of the State of New Mexico Energy and Minerals Department is authorized by an Act of the Legislature (Chapters 70 and 71, New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the La Mesa Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

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

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

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

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit A is hereby designated and recognized as constituting the unit area, containing 97,796.45 acres more or less.

Exhibit A shows, in addition to the boundary of the unit area, the boundaries and indentity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits A or B shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as AO, or when requested by the Commissioner of Public Lands of the State of New Mexico, and not less than four copies of the revised Exhibits shall be filed with the proper BLM office, and one (1) copy thereof shall be filed with Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division."

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, or on demand of the Land Commissioner shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of the month subsequent to the date of notice.

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO the Land Commissioner, and State Division,evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, the Land Commissioner, and State Division,become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90-days time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and the Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands not then entitled to be in a participating area shall be automatically eliminated effective as the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extention of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90 percent of the working interest in the current nonparticipating unitized lands and the owners of 60 percent of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the AO and Land Commissioner, provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.

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

4. UNIT OPERATOR. Peyton Yates is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, 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 the working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to establishment of a participating area or areas hereunder, 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 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and the Land Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO, and the State Division as to State and Privatly owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interest as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO and the Land Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of 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 wells, equipment, materials, and appurtenances used in conducting the unit operations to the new duly qualified successor Unit Operator or to the common agent, 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.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by the working interest owners, the owners of respective acreage interests in all unitized land shall, pursuant to the Approval of the Parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been approved by the AO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and the Land Commissioner, at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as 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 hereto 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 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 unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper BLM office and one true copy with the Land Commissioner, prior to approval of this unit agreement.

8. 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. Acceptable evidence of title to said rights shall be deposited with 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.

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO or by the Land Commissioner, if on State land, or by the Division if on Fee Lands, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the _____ formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO, the Land Commissioner if on State land, or the Division if on Fee land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 7000' feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than 6 months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO, or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5, hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO and Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Notwithstanding anything in this unit agreement to the contrary, except Section 25, UNAVOIDABLE DELAY, two (2) wells shall be drilled with not more than 6-months time elapsing between the completion of the first well and commencement of drilling operations for the second well and with not more than 6-months time elapsing between completion of the second well and the commencement of drilling operation for the third well, regardless of

whether a discovery has been made in any well drilled under this provision. Both the initial well and the second well must be drilled in compliance with the above specified formation or depth requirements in order to meet the dictates of this section; and the second well must be located a minimum of six (6) miles from the initial well in order to be accepted by the AO as the second unit test well, within the meaning of this section. Nevertheless, in the event of the discovery of unitized substances in paying quantities by any well, this unit agreement shall not terminate for failure to complete the two (2) well program but the unit area shall be contracted automatically, effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section 2(e) hereof) all lands not then entitled to be in a participating area.

Upon failure to commence any well as provided for in this (these) section(s) within the time allowed, prior to the establishment of a participating area, including any extension of time granted by AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first 6 months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO and the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner, and State Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calender year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO, the Land Commissioner, and State Division may determine to be necessary for timely development and proper conservation of the oil and gas resources in the unitized area and shall:

(a) Specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) Provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and the Land Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner, and State Division, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner, or the State Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and State Division a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, Land Commissioner, and State Division effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and Non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12, to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner, and State Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by AO, the Land Commissioner, and State Division. The participating area or areas so established shall be revised from time to time, subject to the approval of AO, to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably

proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly, The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by Unit Operator and approved by the AO, the Land Commissioner, and State Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area productive of unitized substances known or reasonably proved to be productive in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests. Royalties due the United States shall be determined by the AO and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the AO and the Land Commissioner, until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to approval of the AO, the Land Commissioner, and State Division, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purpose of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, for repressuring or recycling in accordance with a plan of development and operations which has been approved by the AO, Land Commissioner, and State Division or unavoidably lost, shall be deemed to be produced equally on an

acreage basis from the several tracts of unitized land of the participating area established for such production. For the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentageof said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owner, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the AO, and the Land Commissioner, and Division,at such party's sole risk, costs, and expense, drill a well to test any formation provided the well is outside any participating area established for that formation, unless within 90 days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled under this section by a working interest owner results in production of unitized substances in paying quantities such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled under this section by a working interest owner that obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same, subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind

its share of the unitized substances, and Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of development and operation approved by the AO and the Land Commissioner, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Land Commissioner and Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners 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 the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

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

16. 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 or pursuant to State or Federal law or regulation.

17. DRAINAGE. The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty as determined by the AO.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions 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 Secretary and the Land Commissioner, as to State leases, shall and 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 Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, 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 separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract at the time, such leases shall be extended for 2 years, and any tract of unitized lands will 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 the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO and the Land Commissioner shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil or gas of lands other than those of the United States and State of New Mexico committed to this agreement which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that is shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for 2 years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.

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

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, provided that drilling operations on the initial test well are commenced prior to the expiration dated of any State lease within the unit area, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

(h) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784) (30 U.S.C. 226(j):

"Any [Federal] lease heretofore or hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective

date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto 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 discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or Unit Operator if then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same, as to all lands embraced therein, shall remain in full force and effect so long as such operations are being 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 of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

19. 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 the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the AO and the Land Commissioner and shall automatically terminate 5 years from said effective date unless:

(a) upon application by the Unit Operator such date of expiration is extended by the AO, and the Land Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with the approval of the AO, and the Land Commissioner, or

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long hereafter as unitized substances can be produced, and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or re-working within 60 days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred, or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein, this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and the Land Commissioner. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first 6 months of this agreement unless at least one obligation well shall have been drilled in conformance accordance with Section 9.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any Statewide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal of State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioer and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

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

22. APPEARANCES. Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner, or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department, the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such prodeeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last-known address of the party or parties.

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in the open market, or other matters beyond the reasonable control of the Unit Operator, whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of section 202 (1) to (7) inclusive, of Executive Order 11246 (30 FR 12319), as amended, which are hereby incorporated by reference in this agreement.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot by induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal lands or leases, no payments of funds due the United State shall be withheld, but such funds shall be deposited as directed by the AO, and such funds of the State of New Mexico shall be deposited as directed by

the Land Commissioner, to be held as unearned money pending final settlement of the 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.

28. NONJOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper BLM office, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the AO and the Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operation are commenced hereunder, the right of subsequent joinder, as provisions in this section, by a working interest owner is subject to such requirements or approval(s) if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a nonworking interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such nonworking interest. A nonworking interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to 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 committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

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

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

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other that the fee owner of the unitized substances, said party may forfeit such right and forfeit benefits from operations hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

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

(a) accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(c) provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided 6 months after the surrendered or forfeited, working interest rights become become vested in the fee owner; the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interest shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within 30 days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interest in said tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or new proceeds thereof, from the allocated share of each royalty owner to secure

reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR

Date of signature

_____ _____

Peyton Yates

State of New Mexico)
:ss
County of Eddy)

The foregoing instrument was acknowledged before me this _____ day of August, 1984 by PEYTON YATES.

My commission expires:

_____ _____

Notary Public

Exhibit "B" to Unit Agreement
La Mesa Unit

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
1	T15N-R8E Sec. 1: Lots 1-4, $S\frac{1}{2}N\frac{1}{2}$ 24: $S\frac{1}{2}N\frac{1}{2}$, $N\frac{1}{2}S\frac{1}{2}$ 25: $S\frac{1}{2}$, $S\frac{1}{2}N\frac{1}{2}$ T15N-R9E Sec. 3: Lots 3,4 4: Lots 1,2, $S\frac{1}{2}NE\frac{1}{4}$ 5: $S\frac{1}{2}$, $S\frac{1}{2}N\frac{1}{2}$ 6: Lots 1-7, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, $SE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$	2631.70	NM-23605 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico - 100%
2	T15N-R8E Sec. 3: $S\frac{1}{2}$ 11: $N\frac{1}{2}$ 12: $N\frac{1}{2}$ 13: $N\frac{1}{2}$, $N\frac{1}{2}S\frac{1}{2}$ 14: All 15: $N\frac{1}{2}$, $SW\frac{1}{4}$	2560.00	NM-23599 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico - 100%
3	T15N-R8E Sec. 4: $SE\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}$ 5: Lot 6 6: Lots 9,12 9: Lots 5-8, $E\frac{1}{2}E\frac{1}{2}$, $NW\frac{1}{4}NE\frac{1}{4}$	920.00	NM-23596 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico - 100%
4	T15N-R8E Sec. 19: Lots 20-22 20: Lots 5-7,10-13, 15, $NE\frac{1}{4}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$ 21: Lots 7-18, $E\frac{1}{2}NE\frac{1}{4}$ 22: $W\frac{1}{2}$ 23: $W\frac{1}{2}$, $N\frac{1}{2}NE\frac{1}{4}$ 34: $S\frac{1}{2}$ 35: $S\frac{1}{2}$, $NE\frac{1}{4}$	2517.99	NM-23600 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico - 100%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
5	T15N-R9E Sec. 7: Lots 1-4, $E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}$ 8: $N\frac{1}{2}$, $SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$ 9: $S\frac{1}{2}SW\frac{1}{4}$ 17: $SE\frac{1}{4}$, $E\frac{1}{2}NE\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$, $SW\frac{1}{4}SW\frac{1}{4}$, $NW\frac{1}{4}NW\frac{1}{4}$ 18: Lot 1, $NE\frac{1}{4}NW\frac{1}{4}$, $N\frac{1}{2}NE\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$ 20: $S\frac{1}{2}NW\frac{1}{4}$, $NE\frac{1}{4}$ 21: $N\frac{1}{2}$	2524.78	NM-23613 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
6	T15N-R9E Sec. 19: Lots 1,2, $N\frac{1}{2}SE\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$ 20: $S\frac{1}{2}$ 21: $S\frac{1}{2}$ 29: All 30: Lots 2-4, $SE\frac{1}{4}NW\frac{1}{4}$, $NE\frac{1}{4}NE\frac{1}{4}$ 31: Lots 1-4, $E\frac{1}{2}$, $E\frac{1}{2}W\frac{1}{2}$	2331.60	NM-23612 7-1-85	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
7	T15N-R9E Sec. 26: Lots 3,4, $SW\frac{1}{4}$ 27: $S\frac{1}{2}$ 33: $N\frac{1}{2}$, $N\frac{1}{2}S\frac{1}{2}$, $SW\frac{1}{4}SW\frac{1}{4}$ 34: $N\frac{1}{2}N\frac{1}{2}$, $SW\frac{1}{4}NW\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}$, $SE\frac{1}{4}$ 35: Lots 1,2, $S\frac{1}{2}$, $NW\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$	2040.74	NM-23611 7-1-85	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
8	T15N-R8E Sec. 26: $NW\frac{1}{4}, S\frac{1}{2}SE\frac{1}{4}$ 28: $E\frac{1}{2}$ 29: 1 Lot, $E\frac{1}{2}, N\frac{1}{2}SW\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}, NE\frac{1}{4}NW\frac{1}{4}$ 30: Lots 14-20, $E\frac{1}{2}SE\frac{1}{4}$ 31: Lots 12,13, 15-21,23-28 32 Lots 1-4 33 Lots 1-4, $NW\frac{1}{4}$	2301.83	NM-23601 1-1-86	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
9	T16N-R8E Sec. 35: $NE\frac{1}{4}$ T16N-R9E Sec. 28: $SE\frac{1}{4}$ 30: Lots 2-4, $E\frac{1}{2}SW\frac{1}{4}$ $SE\frac{1}{4}NW\frac{1}{4}, E\frac{1}{2}$ 33: $E\frac{1}{2}$ 34: $NW\frac{1}{4}$	1360.45	NM-25072 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
10	T17N-R8E Sec. 1: Lots 1-4, $S\frac{1}{2}N\frac{1}{2}$, $S\frac{1}{2}$	645.48	NM-25071 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
11	T17N-R8E Sec. 23: $W\frac{1}{2}, W\frac{1}{2}NE\frac{1}{4}$ 24: $E\frac{1}{2}, SW\frac{1}{4}, E\frac{1}{2}NW\frac{1}{4}$ 25: $E\frac{1}{2}, SW\frac{1}{4}$ 27: $N\frac{1}{2}$	1760.00	NM-25070 3-1-86	USA 12.5%	Marjac, Inc, 50% Black Oil, Inc, 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%

RACT O.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
12	T17N-R8E Sec. 28: Lot 1, E½, SW¼, S½NW¼, NE¼NW¼ 33: Lots 1, 2, N½, N½SE¼, NW¼SW¼ 34: Lot 1, NW¼, N½SW¼, SE¼SW¼ 35: Lots 1-5, N½, N½SW¼, NW¼SE¼	2167.49	NM-25069 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
13	T17N-R9E Sec. 19: Lots 1-6, W½SE¼, 20: Lots 1-8 30: Lots 1-6, E½W½, W½NE¼, SE¼ 31: Lots 1-17, NE¼NW¼	1447.06	NM-25067 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
14	T18N-R8E Sec. 13: All 23: All 24: All	1920.00	NM-25063 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
15	T18N-R8E Sec. 25: All 26: All	1280.00	NM-25061 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
16	T18N-R9E Sec. 31: Lots 1-7, NE¼, E½NW¼, N½SE¼, NE¼SW¼	639.50	NM-25058 3-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
17	T18N-R9E Sec. 18: Lots 5-9, $W\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}SW\frac{1}{4}$ 19: Lots 5-8, $W\frac{1}{2}$ 30: Lots 2-5, $W\frac{1}{2}$, $W\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$	1330.85	NM-25057 4-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
18	T16N-R9E Sec. 5: Lots 9,12 7: Lot 4, $E\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$ 8: $N\frac{1}{2}N\frac{1}{2}$, $SW\frac{1}{4}NW\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}$, $NW\frac{1}{4}SW\frac{1}{4}$, $SE\frac{1}{4}$ 9: $NW\frac{1}{4}$ 17: $N\frac{1}{2}$ 18: Lots 1-4, $E\frac{1}{2}W\frac{1}{2}$, $E\frac{1}{2}$ 19: Lots 1-3, $SE\frac{1}{4}$	2045.52	NM-25073 5-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
19	T17N-R9E Sec. 5: Lots 2-10, $NE\frac{1}{4}SE\frac{1}{4}$ 6: Lots 1-7, $SE\frac{1}{4}$, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$ 8: Lot 1, $E\frac{1}{2}SE\frac{1}{4}$ $NW\frac{1}{4}NE\frac{1}{4}$	1187.61	NM-25068 5-1-86	USA 12.5%	Marjac, Inc 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
20	T18N-R8E Sec. 35: All	640.00	NM-25060 5-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
21	T18N-R9E Sec. 29: Lots 5-8, $S\frac{1}{2}N\frac{1}{2}$, $S\frac{1}{2}$	2348.23	NM-25059 5-1-86	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc. 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%

Exhibit "B" to Unit Agreement
La Mesa Unit

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
22	T16N-R8E Sec. 1: Lot 10 2: Lots 28,29 4: Lot 3 9: Lots1-4,E½SE¼ 10: Lot 9,N½NW¼,N½SW¼ 11: Lots 4,8-10,S½SW¼ 12: Lots 11-14,W½SE¼ 13: Lots 1,6,NE¼NE¼ 14: Lots 5-7,NW¼, W½SW¼,NE¼SW¼ 15: S½,NW¼ 23: Lots 1-4,SE¼NW¼, NE¼ 24: NE¼,SW¼,S½NW¼	2475.05	NM-25049 9-1-87	USA 12.5%	Marjac, Inc. 50% Black Oil, Inc 50%	none	Marjac, Inc. 50% Black Oil, Inc. 50%
23	T16N-R8E Sec. 21: E½W½,E½ 22: Lots 2-8,NW¼, W½NE¼,NE¼NE¼, W½SW¼,SE¼SE¼ 25: S½,NW¼,S½NE¼, NW¼NE¼ 26: NE¼	1834.66	NM-25050 9-1-87	USA 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
24	T17N-R9E Sec. 18: Lots 1,2,6,7,9	80.84	NM-43400 10-1-92	USA 12.5%	Roger Shock		Roger Shock 100%
	TOTAL	40,991.38 acres of Federal Lands					

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
25	T15N-R8E Sec. 16: Lots6-9,SE¼, SE¼NE¼ 36: All	980.95	LG-2453-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
26	T15N-R9E Sec. 4: Lots 3,4,S½NW¼, N½SW¼,SW¼SW¼ 5: Lots 1-4 9: SE¼,SE¼NE¼ 10: Lots 2-5,SW¼, W½SE¼	1006.07	LG-2454-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
27	T15N-R9E Sec. 15: Lots 1-4,W½, W½E½ 16: All	1251.13	LG-2455-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
28	T15N-R9E Sec. 22: All 23: Lots 1-5, SW¼NW¼,SW¼ 26: Lots 1,2,NW¼	1185.33	LG-2456-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
29	T15N-R9E Sec. 27: N½ 28: All	960.00	LG-2457-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
30	T15N-R9E Sec. 32: All	640.00	LG-2458-4 12-1-84	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
31	T16N-R9E Sec. 31: Lots 1-4,E½W½ E½	640.84	LG-2793-1 5-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
32	T16N-R9E Sec. 16: All	640.00	LG-2792-1 5-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%
33	T15N-R8E Sec. 2: $S\frac{1}{2}$ 32: $N\frac{1}{2}NE\frac{1}{4}, SE\frac{1}{4}SE\frac{1}{4}, W\frac{1}{2}$	760.00	LG-2883-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%
34	T16N-R8E Sec. 15: $W\frac{1}{2}NE\frac{1}{4}, SE\frac{1}{4}NE\frac{1}{4}$ 26: $W\frac{1}{2}$	440.00	LG-2885-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
35	T16N-R8E Sec. 16: Lots 1-4, $SE\frac{1}{4}$, $E\frac{1}{2}NE\frac{1}{4}$	412.00	LG-2792-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%
36	T16N-R8E Sec. 27: $E\frac{1}{2}, SW\frac{1}{4}, SE\frac{1}{4}NW\frac{1}{4}$ 29: Lots 1-4, $SE\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}, SE\frac{1}{4}SW\frac{1}{4}$ 32: Lots 13-22	1266.07	LG-2887-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%
37	T16N-R8E Sec. 33: Lots 2,3 34: $S\frac{1}{2}$ 35: $S\frac{1}{2}$	695.68	LG-2888-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%
38	T16N-R8E Sec. 36: All	640.00	LG-2889-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Texas & New Mexico 100%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
39	T16N-R9E Sec. 5: Lots 1,6,7,11 6: Lots 2,8,9,13,14 7: Lots 9,11,12,14, 22, $SE\frac{1}{4}NE\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}$, $SE\frac{1}{4}SW\frac{1}{4}$ 8: $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, $SW\frac{1}{4}NE\frac{1}{4}$ 20: $E\frac{1}{2}NE\frac{1}{4}$	690.81	LG-2890-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
40	T16N-R9E Sec. 28: $NE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}$	240.00	LG-2892-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
41	T16N-R9E Sec. 29: $NW\frac{1}{4}$, $W\frac{1}{2}NE\frac{1}{4}$, $W\frac{1}{2}SW\frac{1}{4}$ 32: $N\frac{1}{2}$, $SW\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$	880.00	LG-2893-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico, Inc.	none	Mobil Producing Tex & New Mexico 100%
42	T16N-R9E Sec. 33: $N\frac{1}{2}NW\frac{1}{4}$	80.00	LG-2894-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
43	T17N-R8E Sec. 2: Lots 1-4, $S\frac{1}{2}N\frac{1}{2}$, $S\frac{1}{2}$ 11: All	1283.12	LG-2895-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
44	T17N-R8E Sec. 12: All 13: $W\frac{1}{2}$, $W\frac{1}{2}E\frac{1}{2}$	1120.00	LG-2896-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
45	T17N-R8E Sec. 14: All	640.00	LG-2897-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
46	T17N-R8E Sec. 33: Lots 3,4,$NE\frac{1}{4}SW\frac{1}{4}$ 36: Lots 1-7,$NE\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$	556.55	LG-2898-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
47	T17N-R9E Sec. 7: Lots 1-10,$NE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}$,$NE\frac{1}{4}SW\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$	637.44	LG-2899-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
48	T17N-R9E Sec. 8: Lots 2-6,,$SW\frac{1}{4}NE\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$,$NE\frac{1}{4}SW\frac{1}{4}$ $S\frac{1}{2}SW\frac{1}{4}$	417.33	LG-2900-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
49	T17N-R9E Sec. 17: Lots 1-4,$N\frac{1}{2}$, $N\frac{1}{2}SW\frac{1}{4}$,$SW\frac{1}{4}SW\frac{1}{4}$ 28: Lots 7,8,9, 32: Lots 1,6-10	758.16	LG-2901-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
50	T18N-R8E Sec. 36: All T18N-R9E Sec. 32: Lots 1-4,$N\frac{1}{2}S\frac{1}{2}$, $N\frac{1}{2}$	1268.89	LG-2903-2 7-1-85	NM 12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
51	T16N-R8E Sec. 20: Lot 3 21: $SW\frac{1}{4}SW\frac{1}{4}$ 26: $W\frac{1}{2}$	376.84	LG-2886-1 7-1-85	NM 12.5%	Mobil Producing Texas & New Mexico	none	Mobil Producing Tex & New Mexico 100%
	TOTAL 20,467.21 acres of New Mexico Lands						

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
52	T16N-R8E Sec. 1: Small Holding Claim #5949: situated in Sec. 1 & 2 T16N-R8E and Sec. 35 & 36 T17N-R8E. Also: Tract 1&2 of of Small Holding Claim #1242: situated in Sec. 1 T16N-R8E and Sec.36 T17N-R8E. Also: Tract#2 of Small Holding Claim #711:situates in Sec.1 T16N-R8E, & Sec.36 T17N-R8E. Sec. 2: Small Holding Claim #480:situates in Sec.2 T16N-R8E & Sec.35 T17N-R8E Also:S½ Tract 8 of Small Holding Claim #1220. Sec. 4: Lots 1&2 Sec. 6: Lots 3&4, E½SW¼,SE¼ Also:That part of the Cieneguilla Grant lying North of a protracted line between Sec. 8&17 across the G Grant: except that portion of what would be the SW¼SE¼ of Sec. 9 deeded to the City of Santa Fe and recorded in Book 17 Page 267 of the Santa Fe Records. This tract covers parts of Section 3,4,5,8,&9 T16N-R8E and part of Sec.33&34 T17N-R8E. T17N-R8E Sec. 23: SE¼,E½NE¼ 24: W½NW¼ 27: SW¼ 34: E½	2842.33	Fee 4-7-85	12.5%	Bruce A.Black & Mark E.Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
53	T15N-R8E Sec. 4: Portions 5: Portions 33: $SE\frac{1}{4}$ T16N-R8E Sec. 22: Lot 1 27: Lots1-3, $SW\frac{1}{4}NW\frac{1}{4}$ 28: Lots1,4,5,7,8, 9,10, $NW\frac{1}{4}NE\frac{1}{4}$, $N\frac{1}{2}NW\frac{1}{4}$, $SW\frac{1}{4}NW\frac{1}{4}$, $NW\frac{1}{4}SW\frac{1}{4}$	895.70	Fee 4-8-85	12.5%	Bruce A. Black & Mark E. Weidler	none	Bruce A. Black 50% Mark E. Weidler 50%
	TOTAL	3738.03 acres of Fee lands					
	T15N-R8E Sec. 6: Lots 13-17 T16N-R8E Sec. 12: Lot 1 21: Lots 1,2,3, T17N-R8E Sec. 26: All T18N-R9E Sec. 19: Lots 1-4 20: All 29: Lots 1-4 30: Lot 1 T17N-R9E Sec. 29: Lots 1,2,3,37-60 32: Lots 12-27						
	TOTAL	1968.87 acres of Unleased Federal Lands					

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
	T15N-R8E Sec. 2: N½ T15N-R9E Sec. 10: S½NW¼ T16N-R8E Sec. 1: Lots 2,3,6,9 2: Lots 3,4,10-27 3: Lots 3,9, 10						
	TOTAL	1236.05 acres of Unleased State Lands					

T15N-R8E
Sec. 1: S½
3: Lots 1,2,S½NE¼
8: Lot 5
9: SHC 1235,1895
10: N½
11: S½
15: SE¼
19: Lots 12-19
20: Lot 41,Lot 42
21: Mineral Survey 1086,1087,1503
22: E½
24: SHC 1235
27: S½NW¼
28: W½

Exhibit "B" to Unit Agreement
La Mesa Unit

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
	T15N-R9E						
	Sec. 3: Lots 1,2,5,8, $S\frac{1}{2}N\frac{1}{2}$, $NW\frac{1}{4}SW\frac{1}{4}$						
	4: $SE\frac{1}{4}SW\frac{1}{4}$						
	8: $SW\frac{1}{4}SE\frac{1}{4}$						
	9: $W\frac{1}{2}NE\frac{1}{4}$, $NE\frac{1}{4}NE\frac{1}{4}$, $NW\frac{1}{4}$, $N\frac{1}{2}SW\frac{1}{4}$						
	10: Lot 1, $NW\frac{1}{4}NW\frac{1}{4}$						
	17: $NW\frac{1}{4}NE\frac{1}{4}$, $NE\frac{1}{4}NW\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}NW\frac{1}{4}SW\frac{1}{4}$						
	18: Lots 2,3,4, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}$, $SE\frac{1}{4}$						
	19: Lots 3,4, $NE\frac{1}{4}$, $E\frac{1}{2}W\frac{1}{2}$, $SW\frac{1}{4}SE\frac{1}{4}$						
	20: $N\frac{1}{2}NW\frac{1}{4}$						
	30: Lot 1, $NE\frac{1}{4}NW\frac{1}{4}$, $NW\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}NE\frac{1}{4}$, ~~$E\frac{1}{2}$~~$SW\frac{1}{4}$, $SE\frac{1}{4}$						
	T16N-R8E						
	Sec. 24: $E\frac{1}{2}SE\frac{1}{4}$						
	25: $NE\frac{1}{4}NE\frac{1}{4}$						
	35: $NW\frac{1}{4}$						
	T16N-R9E						
	Sec. 19: Lot 4, $W\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$						
	21: $S\frac{1}{2}$						
	28: $W\frac{1}{2}NW\frac{1}{4}$, $SW\frac{1}{4}$						
	29: $E\frac{1}{2}NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}$						
	30: Lot 1, $NE\frac{1}{4}NW\frac{1}{4}$						
	32: $E\frac{1}{2}SE\frac{1}{4}$						
	33: $S\frac{1}{2}NW\frac{1}{4}$, $SW\frac{1}{4}$						

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
	The Sitio de Juana Lopez Grant The Sitio de Los Cerrillos Grant The Los Cerrillos Grant						
	T15N-R8E						
	Sec. 3: Lots 3,4,$S\frac{1}{2}NW\frac{1}{4}$						
	4: Lots 1,2,3						
	5:						
	6: Lots 1,3,5,6, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$, SHC						
	7: Lots 11-14						
	10: $S\frac{1}{2}$						
	12: $S\frac{1}{2}$						
	13: $S\frac{1}{2}S\frac{1}{2}$						
	19:						
	20:						
	23: $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}$						
	24: $S\frac{1}{2}SW\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$, $N\frac{1}{2}N\frac{1}{2}$, $SE\frac{1}{4}SE\frac{1}{4}$						
	25: $N\frac{1}{2}NW\frac{1}{4}$, $NW\frac{1}{4}NE\frac{1}{4}$, $NE\frac{1}{4}NE\frac{1}{4}$						
	26: $SW\frac{1}{4}$, $NE\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$						
	27: $N\frac{1}{2}NW\frac{1}{4}$, $NE\frac{1}{4}$, $SE\frac{1}{4}$, $SW\frac{1}{4}$						
	29: $S\frac{1}{2}SW\frac{1}{4}$						
	30: Lots 5,6,$NE\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$						
	32:						
	33: $NE\frac{1}{4}$						
	34: $N\frac{1}{2}$						
	35: $NW\frac{1}{4}$						
	T15N-R9E						
	Sec. 33: $SE\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SE\frac{1}{4}$						
	34: $SW\frac{1}{4}$, $SE\frac{1}{4}NW\frac{1}{4}$ $SW\frac{1}{4}NE\frac{1}{4}$						

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXP. DATE	ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT AND PERCENTAGE	WORKING INTEREST OWNER-PERCENTAGE
	T16N-R8E						
	Sec. 1:						
	2:						
	3: Lots 1,2,3,9,10, $S\frac{1}{4}SW\frac{1}{4}$, $NE\frac{1}{4}SW\frac{1}{4}$, $NW\frac{1}{4}SE\frac{1}{4}$, SHC, $NE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}$						
	10: Lots 7,8, $S\frac{1}{2}NW\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$, SHC						
	11:						
	12:						
	13: Lots 2,3,4,5,7,8, $S\frac{1}{2}SE\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}$						
	14: Lots 2,3,4,8						
	23: $S\frac{1}{2}$						
	24: $W\frac{1}{2}SE\frac{1}{4}$						
	26: $SE\frac{1}{4}$						
	28:						
	32: SHC						
	33: SHC						
	33: $SE\frac{1}{4}$, $N\frac{1}{2}$						
	T16N-R9E						
	Sec. 4:						
	5: SHC						
	6: SHC						
	7: SHC						
	8: $SW\frac{1}{4}SW\frac{1}{4}$						
	9: $S\frac{1}{2}$						
	17: $S\frac{1}{2}$						
	19: $E\frac{1}{2}NE\frac{1}{4}$						
	20: $NW\frac{1}{4}$, $W\frac{1}{2}NE\frac{1}{4}$, $S\frac{1}{2}$						
	21: $N\frac{1}{2}$						

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	T17N-R8E						
	Sec. 13: $E\frac{1}{2}E\frac{1}{2}$						
	25: $NW\frac{1}{4}$						
	27: $SE\frac{1}{4}$						
	36: SHC						
	T17N-R9E						
	Sec. 5: Lot 1, $S\frac{1}{2}NE\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$						
	8: $E\frac{1}{2}NE\frac{1}{4}$						
	17: SHC						
	18: Lots 3,4,5,8, $E\frac{1}{2}SW\frac{1}{4}$, $NE\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}NE\frac{1}{4}$, SHC 2514						
	19: $NE\frac{1}{4}$, $E\frac{1}{2}W\frac{1}{2}$						
	20:						
	28:						
	29: SHC						
	31:						
	32:						
	33:						
	The Pacheco Grant						
	30,067.02 Unleased Fee acreage						

RECAPITULATION

40,991.38 acres Federal Lands	41.628902% of Unit Area
20,467.21 acres State Lands	20.785528%
3,738.03 acres Fee Lands	3.796166%
33,271.94 acres Unleased Lands	33.789404%
98,468.56 acres All Lands	100.000000% of Unit Area

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

LAMESA UNIT

OPERATING AGREEMENT

DATED

October 9, 1984,

OPERATOR PEYTON YATES

CONTRACT AREA Townships 15-18 North, Ranges 8,9 East

COUNTY ~~OR PARISH~~ OF SANTA FE STATE OF NEW MEXICO

PEYTON YATES
Case No. 8354
10/17/84 Examiner Hearing
Exhibit No. 3

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between PEYTON YATES, 207 S. 4th Street, Artesia, NM, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- [X] A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to agreement,
  - (2) Restrictions, if any, as to depths or formations,
  - (3) Percentages or fractional interests of parties to this agreement,
  - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
  - (5) Addresses of parties for notice purposes.
- [ ] B. Exhibit "B", Form of Lease.
- [X] C. Exhibit "C", Accounting Procedure.
- [X] D. Exhibit "D", Insurance.
- [X] E. Exhibit "E", Gas Balancing Agreement.
- [X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
- [X] G. Exhibit "G", Tax Partnership Agreement.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~ shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

~~**B. Loss of Title:**~~

1. Failure of Title: Should any oil and gas interest or lease, ~~or interest~~ therein, be lost through failure of title, which loss results in a reduction ~~of interest~~ from that shown on Exhibit "A", this agreement, nevertheless, shall continue ~~in force~~ as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone ~~the entire loss and it shall not be entitled to recover from Operator or the other parties any development~~

~~or operating costs which it may have theretofore paid, but there shall be no monetary liability on its~~ part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

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

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

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

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

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties ~~hereto that each shall defend title to its interest and bear all expenses in connection therewith~~.

~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,~~ any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or ~~becoming a party to this agreement.~~

3. Other Losses: All losses incurred, ~~other than those set forth in Articles IV.B.1. and IV.B.2. above~~, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

PEYTON YATES, 207 South 4th Street, Artesia, NM 88210 shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed. In the event of a conflict between these provisions and the Unit Agreement, said Unit Agreement shall prevail.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

The initial well will be the first well required by the Unit Agreement and shall be drilled with due diligence to adequately test the Dakota formation at approximately 5500 feet.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth, all subject to the terms and provisions of the Unit Agreement.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof, subject to the terms and provisions of the Unit Agreement.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to twenty-four hours, ~~exclusive of Saturday, Sunday or legal holidays~~. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 500% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

500 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

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

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

In the event any party hereto is not at any time taking or marketing its share of gas production and Operator is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such party's share of gas production, or in the event any party has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and incorporated herein shall automatically become effective.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners. It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and or gas until the amount owed by such Non-Operator, including reasonable attorney fees in the event of suit, to collect any delinquency, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

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

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

~~☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.~~

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND---------- Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of FIFTEEN THOUSAND---------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the ~~extent of 1/8 of 8/8ths~~ ---------- due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.L.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. The provisions of this Article VIII-B shall only apply to leases, or portions of leases, located within the Unit Area.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

~~This agreement is not intended to create, and shall not be construed to create, a relationship of part~~nership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen thousand and no/100---------- Dollars ($ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☒ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

~~X Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled~~ under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, ~~or are~~ capable of production, and for an additional period of 180 days from cessation ~~of all~~ production; provided, however, if, prior to the expiration of such additional period, ~~one or~~ more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, ~~this~~ agreement shall continue in force until such operations have been completed and ~~if production~~ results therefrom, this agreement shall continue in force as provided herein. ~~In the event the well described~~ in Article VI.A., or any subsequent well drilled hereunder, ~~results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 120 days from the date of abandonment of said well.~~

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A. Substitute Well:

If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective depth, then and in any of such events, on or before 30 days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well ("Substitute Well") at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

B. Option Well:

Within 90 days after the completion of the Initial Well and, if drilled the Substitute Well, as a dry hole, Operator shall have the option of commencing an "Option Well" at a lawful location of Operator's selection in the Unit Area. The Option Well shall be drilled to the Objective Depth in the same manner as provided for in the Initial Well.

C. Any provision herein concerning the Initital Well shall also apply to the Substitute and Option Wells, and any provision herein excepting the Initial Well shall also except the Substitute and Option Wells.

D. In addition to Paragraph E, Article VI, and notwithstanding Paragraph F, Article VI, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

E. Notwithstanding any other provisions herein, any well proposed under the provisions of Article VI.B.1 shall be subject to the following:

(1) In addition to the Definitions provisions of Article I of this Operating Agreement, the term "Drilling Block" shall be added and shall mean the proposed drillsite section and all direct and diagonal offsetting sections.

(2) Should any party subject to this Agreement elect not to participate in the drilling of the initial well on a Drilling Block, said party shall assign all of its working interest in the leases included within the Drilling Block upon completion of the initial well, whether producer or dry hole, and the operating rights thereunder, to the participating parties in the proportions of the parties participating in the drilling.

F. Any party participating in the drilling of the initial well on a Drilling Block shall have the right to become a "Non-Consenting Party" under the provisions of Article VI.B.2 as to any subsequent well or wells proposed on the Drilling Block.

G. Only as to the working interest, the parties hereto agree that, notwithstanding the terms of the Unit Agreement or Paragraph XV-H of this Operating Agreement, the working interest in each well drilled hereunder and the ownership of all equipment shall remain fixed, and the expansion or contraction of Participating Areas will not cause a revision of the working interest percentages in any well or its equipment.

Prior to the drilling of each well, a "Working Interest Area" will be established by the Unit Operator, which shall include all acreage included in the largest possible Participating Area which could be designated for the proposed well, in the good faith judgment of the Unit Operator. Each Working Interest Area will remain in effect for a term of 90 days and so long thereafter as operations for the drilling of a well are diligently being prosecuted, or a well capable of producing unitized substances is located on the Working Interest Area. A Working Interest Area will expire 90 days after production ceases, unless operations for the drilling of a new well on the Working Interest Area are commenced.

Portions of previously designated Working Interest Areas may be included in subsequent Working Interest Areas; however, the percentages set by previous Working Interest Areas will remain unchanged. In such event the working interest in each subsequent Working Interest Area shall be calculated with regard to the fact that a portion of the acreage is within a previous Working Interest Area by allocating to the parties within the previous Working Interest Area their percentage share of working interest as previously established for such Working Interest Area, as to the acreage included in both Working Interest Areas, and by allocating to the parties within the subsequent Working Interest Area their proportionate share of the acreage therein, but not included in the previous Working Interest Area.

If any such revision of a Participating Area results in an increase or decrease in total burdens borne by the working interest, all such change shall be borne by the parties in proportion to their working interest.

H. It is understood, and accepted, that this Operating Agreement is being made and entered into in connection with, and as a part of, the Unit Agreements for the Development and Operation of the Caja Del Rio Grande and La Mesa Unit Areas and that there are conflicts between this Agreement and said Unit Agreements. Except for the term of this Operating Agreement, as provided in Article XIII, in the event any such conflict should become a controversy between the Unit Operator and any State or Federal agency, department or division, the terms and provisions of said Unit Agreement shall prevail. Provided further, except for the term of this Operating Agreement, in the event any such conflict should cause a controversy between Unit Operator and any, or all, non-operators hereunder, the terms and provisions of the said Unit Agreement shall prevail and all the parties hereto shall use utmost good faith in attempting to resolve such conflicts.

I. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's subsidiaries, affiliates, or associates, without prior written consent of other parties. All production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977
ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT, DATED OCTOBER 9, 1984, BETWEEN PEYTON YATES, "OPERATOR", AND PELTO OIL COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS IN SANTA FE COUNTY, NEW MEXICO.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 9th day of October, 1984.

OPERATOR

PEYTON YATES

_____ _____

NON-OPERATORS

_____ _____

_____ _____

STATE OF NEW MEXICO)
: ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this _____ day of _____, 1984 by PEYTON YATES.

My commission expires:
_____

_____
Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED OCTOBER 9, 1984, BETWEEN PEYTON YATES, "OPERATOR", AND PELTO OIL COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS IN SANTA FE COUNTY, NEW MEXICO.

I. 1. Lands Subject to Agreement:
Townships 15-18 North, Ranges 8 and 9 East
Santa Fe County, New Mexico

2. Depth Restriction:
None

3. Drilling Unit for First Well:
Proration Unit as established by the New Mexico OCD

II. Percentage Interest of Parties Under Agreement:

NAME	UNIT %	INITIAL TEST WELL BEFORE P/O	INITIAL TEST WELL, DRILLING BLOCK, & UNIT TEST WELL AFTER P/O	BALANCE OF OF UNIT, SUBSEQUENT WELLS
PELTO/YATES JOINT ACREAGE				
PEYTON YATES	50	100	87.5	75
PELTO OIL COMPANY	50	-0-	12.5	25
MOBIL/YATES JOINT ACREAGE				
PEYTON YATES	-	-	-	75
MOBIL PRODUCING TX & NM,INC.	-	-	-	25

Subject to those certain Farmout Agreements dated _____ and _____ between Pelto and Yates and Mobil and Yates, respectively.

III. Addresses of Parties to Which Notices Should be Sent:

Peyton Yates
207 South Fourth Street
Artesia, New Mexico 88210
ATTN Janet Richardson

Pelto Oil Company
2 Greenspoint Plaza, Ste. 400
16825 Northchase
Houston, Texas 77060
ATTN Bruce Taylor

Mobil Producing Texas & New Mexico, Inc.
9 Greenway Plaza, Suite 2700
Houston, Texas 77046
ATTN John Wolsten

EXHIBIT " C "

Attached to and made a part of Operating Agreement, dated October 9, 1984, between Peyton Yates, "Operator", and Pelto Oil Company, et al "Non-Operators", covering lands in Santa Fe County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%), or percentage most recently recommended by COPAS.

4. Material

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

5. Transportation

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

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

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(XX) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B.

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,100.00

Producing Well Rate $ 310.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

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

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5 % of total costs if such costs are more than $ 25,000.00 but less than $ 100,000.00 ; plus

B. 3 % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF

OPERATING AGREEEMENT

DATED OCTOBER 9, 1984, BETWEEN PEYTON YATES, "OPERATOR", AND PELTO OIL COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS IN SANTA FE COUNTY, NEW MEXICO.

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than $100,000.00 per employee.

(B) Public Liability Insurance:
Bodily Injury - $500,000.00 each occurrence.

(C) Automobile Public Liability Insurance:
Bodily Injury - $250,000.00 each person.
$500,000.00 each occurrence.

Property Damage - $100,000.00 each occurence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "E"

GAS BALANCING AGREEEMENT

Attached to and made a part of operating agreement dated October 9, 1984, between Peyton Yates, "Operator", and Pelto Oil Company, et al, "Non-Operators", covering lands in Santa Fe County, New Mexico.

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas atttributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% of its current share of the volumes capable of being delivered or its current share of allowable gas production if regulated thereto by State regulatory body having jurisdiction, unless that party has gas in place. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverablility tests required by its purchaser, provided that said test should be resonable length, normally not to exceed 72 hours.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by Federal, State or other Governmental Agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by Federal, State or other Governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other Governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

Notwithstanding the provisions of the last preceding paragraph, it is expressly agreed that any underproduced party hereunder shall have the optional right, with respect to each proration unit separately, to receive a cash settlement bringing such underproduced party's gas account into balance at any time prior to the permanent discontinuance of gas production, by first giving each overproduced party ninety (90) days written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the 1st day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided in the last preceding paragraph hereof. The optional right provided for in this paragraph can only be exercised one (1) time by any particular underproduced party on the same proration unit; and each underproduced party agrees that it will not exercise such option unless it is of the opinion that the remaining underproduced recoverable gas reserves are inadequate for its gas account to be brought into balance by actual production prior to permanent discontinuance of gas production from such proration unit.

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

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

Attached to and made a part of Operating Agreement dated October 9, 1984 between Peyton Yates, "Operator", and Pelto Oil Company, et al, "Non-Operators", covering lands in Santa Fe County, New Mexico.

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevent orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

Exhibit "F"
Page 2

Exhibit "G"
TAX PARTNERSHIP AGREEMENT

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT, DATED OCTOBER 9, 1984, BETWEEN PEYTON YATES, "OPERATOR", AND PELTO OIL COMPANY, ET AL, "NON-OPERATORS", COVERING LANDS IN SANTA FE COUNTY, NEW MEXICO.

The relationship between the parties hereto shall be such that it will, for Federal and State income tax purposes, be treated as a partnership. For all other purposes, this Agreement is not intended to create, nor shall it be construed as having created, a partnership or mining venture between the parties hereto and it is expressly agreed that the rights and obligations hereunder are separate and several and not joint or collective. Furthermore, nothing in this Agreement shall be construed as providing directly or indirectly for any joint or cooperative refining or marketing or sale of any party's interest in the oil and gas or the products therefrom.

No election shall be made for this arrangement between the parties hereto to be excluded from the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code or similar provisions of state income tax law, except that such election may be made by the Operator for any year subsequent to the end of the taxable year by which all costs of drilling the test well have been expended. The Operator shall timely prepare and file partnership income tax returns for this arrangement until the election mentioned above is properly exercised. Operator shall submit copies of all returns to the other parties forty-five (45) days before the due date to permit review and approval prior to filing. Operator shall make no charges for performance of any administrative or professional service in connection with the keeping of records or in the filing of returns. Operator is hereby granted authority to make the following elections under United States Internal Revenue Laws and Regulations and any similar State Statues:

A. To elect to adopt the calendar year as the annual accounting period;

B. To elect to adopt the accrual method of accounting;

C. To elect to expense all intangible drilling and development costs;

D. To elect to compute the allowance for depreciation using the accelerated cost recovery method.

E. To elect to deduct advanced royalties from gross income for the year the advance royalties are paid or accrued; and

F. To make such other elections as may be approved by the parties.

The parties further agree that for United States Income Tax purposes, the gains and losses from sales, abandonments and other disposition of property and all classes of costs, expenses, credits, including depreciation and depletion, shall be shared and accounted for as follows:

1. All production and intangible drilling and development costs and all other classes of costs and expenses shall be allocated as deductions to each party in accordance with its respective contributions to such costs;

2. Depreciation on tangible equipment shall be allocated to each party in accordance with its contributions to the adjusted basis of such equipment, as such adjusted basis is defined in the Internal Revenue Code of 1954, as amended, and any similar State Statute;

3. Deductions for depletion shall be computed by the parties as follows:

   a. If eligible for percentage or cost depletion, the depletion deduction shall be computed by each of the parties separately. Percentage depletion shall be calculated under IRC Section 613A(b), "Exemption for Certain Domestic Gas Wells," or IRC Section 613A(c), "Independent Producers and Royalty Owners," whichever is applicable.

   b. The partnership basis in oil or gas properties shall be allocated to each party in accordance with its respective contribution to such cost depletion base. Each partner shall maintain an individual basis account and compute his

own allowance for either percentage depletion or cost depletion on all his properties. The depletion allowance deducted by the partners shall be treated as a reduction of the basis of the partnership property. In addition, each partner shall furnish their percentage or cost depletion calculation to Operator annually.

c. Each party shall take into account for his depletion calculation such party's share of production, gross income, royalty obligations, expenses, contributions to the unadjusted cost basis of the joint property, all adjustments to basis, and depletion allowance deductions reducing such party's basis.

4. Such investment credit as shall be allowed by Section 38 of the Internal Revenue Code of 1954, as amended, as well as any other credits shall be allocated to the parties in accordance with their respective contributions to the cost thereof.

5. Gains and losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) will be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective Income Tax Returns if such property were held by the parties outside this agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits, or other deductions which have been allocated to each party with respect to such property as provided in this paragraph.

Should there be a transfer of an interest under this Agreement income and deductions attributable to such interest shall not be allocated between the transferor and transferee in a prorata manner but shall be allocated according to the date the income was accrued and the date the expense was incurred.

When requested, each party agrees to provide Operator with all information readily available from the regularly maintained accounting records.

AGREED AND ACCEPTED this _____ day of _____, _____.