

BEFORE EXAMINER UTZ	
OIL CONSERVATION COMMISSION	
<i>Appl</i>	EXHIBIT NO. <i>1</i>
CASE NO.	<i>2545</i>

UNIT AGREEMENT
for the
JALMAT FIELD
YATES SAND UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of April, 1962, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, In the interest of the public welfare and to promote conservation and increase the ultimate recovery of oil, gas, and associated minerals from the Jalmat Field, in Lea County, State of New Mexico, and to protect the rights of the owners of interests therein, it is deemed necessary and desirable to enter into this agreement to unitize the Oil and Gas Rights in and to the Unitized Formation in order to conduct a secondary recovery, pressure maintenance, or other recovery program as herein provided; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943, as amended, Laws 1961 ch 176 #1) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

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

NOW, THEREFORE, In consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1

DEFINITIONS

As used in this agreement, the terms herein contained shall have the following meaning:

1.1 Unit Area means the lands described by Tracts in Exhibit A and shown on Exhibit B as to which this agreement becomes effective or to which it may be extended as herein provided.

1.2 Unitized Formation means that subsurface portion of the Unit Area commonly known or described as follows: The Yates Sand Formation encountered in

the drilling of the British-American Hall State "D" No. 1 Well between the depths of Three Thousand Eight Hundred Twelve (3,812) feet KB and Four Thousand and Eighteen (4,018) feet KB as shown by the Radiation Log of said well, which well is located Six Hundred Sixty (660) feet from the north line and Six Hundred Sixty (660) feet from the east line of Section 23, Township 22 South, Range 35 East, Lea County, New Mexico.

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

1.4 Working Interest means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this Agreement shall thereafter be treated as a Working Interest for all purposes of this Agreement.

1.5 Royalty Interest means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

1.6 Royalty Owner means a party hereto who owns a Royalty Interest.

1.7 Working Interest Owner means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths ($7/8$) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth ($1/8$) interest therein.

1.8 Tract means each parcel of land described as such and given a Tract number in Exhibit A.

1.9 Unit Operating Agreement means the agreement entitled "Unit Operating Agreement, Jalmat Field Yates Sand Unit, Lea County, New Mexico," of the same effective date as the effective date of this agreement, and which is entered into by Working Interest Owners.

1.10 Unit Operator means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

1.11 Tract Participation means the percentage shown on Exhibit A for allocating Unitized Substances to a Tract under this agreement.

1.12 Unit Participation of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

1.13 Outside Substances means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

1.14 Total Tract Remaining Primary Reserves Subsequent to May 31, 1961 means the estimated volume of oil that would be produced after May 31, 1961 from the Unitized Formation under each Unit Tract if the current method of oil producing operations were continued until oil production from each Tract declined to a rate which would not compensate for continued operation of the wells on each Tract.

1.15 Total Unit Area Remaining Primary Reserves Subsequent to May 31, 1961 means the summation of reserves defined in Paragraph 1.14 of all Tracts in the Unit Area.

1.16 Total Tract Producing Rate for the Six (6) Months Prior to June, 1961 means the total oil production from the Unitized Formation under each Unit Tract from December 1, 1960 to May 31, 1961, inclusive, as reported to the Oil Conservation Commission of the State of New Mexico by Operators of the individual Tracts.

1.17 Total Unit Area Producing Rate for the Six (6) Months Prior to June, 1961 means the summation of the oil production defined in Paragraph 1.16 of all Tracts in the Unit Area.

1.18 Total Tract Productive Acreage means the surface area, in acres, of each Tract in the Unit Area which is located within the estimated producing limits of the Unitized Formation.

1.19 Total Unit Area Productive Acreage means the summation of the Tract productive acreage of all tracts in the Unit Area as defined in Paragraph 1.18.

1.20 Total Tract Ultimate Primary Reserves means the summation of the oil production from the Unitized Formation from the date of first production through May 31, 1961 as reported to the Oil Conservation Commission of the State of New Mexico by Operators of the individual Tracts and the reserves defined in Paragraph 1.14, for each Tract in the Unit Area.

1.21 Total Unit Area Ultimate Primary Reserves means the summation of the reserves defined in Paragraph 1.20 of all Tracts in the Unit Area.

1.22 Oil and Gas Rights means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

1.23 Unit Operations means all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

1.24 Unit Equipment means all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

1.25 Unit Expense means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

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

ARTICLE 2

EXHIBITS

2.1 Exhibits. Attached hereto are the following exhibits which are incorporated herein by reference:

2.1.1 Exhibit A, which is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.

2.1.2 Exhibit B, which is a map that shows the boundary lines of the Unit Area and the Tracts therein.

2.2 Reference to Exhibits. When reference herein is made to an exhibit, the reference is to the Exhibit as originally attached or, if revised, to the latest revision.

2.3 Exhibits Considered Correct. An exhibit shall be considered to be correct until revised as herein provided.

2.4 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering

or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

2.5 Filing Revised Exhibits. If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the revised exhibit with the Commissioner of Public Lands of the State of New Mexico and for record in the County or Counties in which this agreement is filed.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. Subject to the provisions of this agreement, all Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit A, and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formation, so that operations may be conducted as if the Unitized Formation had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease had been subject to all of the provisions of this agreement.

3.2 Personal Property Excepted. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

3.3 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments covering the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this agreement, but otherwise shall remain in effect.

3.4 Continuation of Leases and Term Royalties. Unit Operations conducted on any part of the Unit Area shall be considered with respect to leases and term royalties as follows:

3.4.1 Operations, including drilling operations, conducted with respect to the Unitized Formation on any part of the Unit Area, or production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, shall be considered as operations upon or production from each Tract, and such operations or production shall continue in effect each lease or term royalty interest as to all lands covered thereby just as if such operations had been conducted and a well had been drilled on and was producing from each Tract.

3.4.2 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.

3.4.3 Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to the portion committed and that portion not committed, and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area), (i) if, and for so long as Unitized Substances are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement, or (ii) if, and for so long as some part of the lands embraced in such State lease are allocated Unitized Substances; or (iii) if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of Unitized Substances, said lease shall continue in full force and effect as to all of the lands embraced therein, as provided in (i) or (ii) above.

3.5 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to the Oil and Gas Rights by any party hereto to any other party or to Unit Operator. The intention is to provide for the cooperative

development and operation of the Tracts and for the sharing of Unitized Substances as herein provided.

3.6 Injection Rights. Royalty Owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts Working Interest Owners deem expedient for Unit Operations, including the right to drill and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells for such purposes.

3.7 Development Obligation. Nothing herein shall relieve Working Interest Owners from the obligation to develop reasonably as a whole the lands and leases committed hereto.

ARTICLE 4

PLAN OF OPERATIONS

4.1 Unit Operator. Working Interest Owners are, as of the effective date of this agreement, entering into the Unit Operating Agreement, designating The British-American Oil Producing Company as Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations. The operations shall conform to the provisions of this agreement and the Unit Operating Agreement. If there is any conflict between such agreements, this agreement shall govern.

4.2 Operating Methods. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, engage in methods of operation of the Unit Area which from time to time will in their judgment be conducive to that end within practicable economic limits, including water flooding operations and such other pressure maintenance, repressuring and secondary recovery operations as may be deemed by them to be necessary or proper to achieve that end.

4.3 Change of Operating Methods. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5

TRACT PARTICIPATION

5.1 Tract Participation. The Tract Participation of each Tract is shown in Exhibit A. Upon the effective date hereof, the Tract Participation of each Tract shall be the Primary Percentage Participation shown in Exhibit "A" for each Tract, which shall continue to be the Tract Participation for each Tract until there has been produced subsequent to May 31, 1961, from the formation herein referred to as the Unitized Formation underlying the Unit Area as initially described in Exhibit A a total volume of oil of five hundred thousand three hundred thirty nine (500,339) barrels and until 7:00 A.M. on the first day of the calendar month next following the month in which such total oil production is reached. Thereafter the Tract Participation of each Tract shall be the Secondary Percentage Participation for such Tract shown in Exhibit "A". The volume of oil to be produced from the Unitized Formation referred to in this Paragraph 5.1 shall be determined from New Mexico Oil Conservation Commission Form C-115 as required by and submitted to said Commission.

5.1.1 The Primary and Secondary Participation Percentages shown in Exhibit A were determined in accordance with the following formulas:

(a) Primary Participation formula:

$$\frac{\text{Total Tract Remaining Primary Reserves Subsequent to May 31, 1961}}{\text{Total Unit Area Remaining Primary Reserves Subsequent to May 31, 1961}} \quad \times \quad 60$$

Plus

$$\frac{\text{Total Tract Producing Rate for the six (6) Months prior to June, 1961}}{\text{Total Unit Area Producing Rate for the six (6) months prior to June, 1961}} \quad \times \quad 30$$

Plus

$$\frac{\text{Total Tract Productive Acreage}}{\text{Total Unit Area Productive Acreage}} \quad \times \quad 10$$

= Tract Primary Percentage Participation.

(b) Secondary Participation formula:

$$\frac{\text{Total Tract Ultimate Primary Reserves}}{\text{Total Unit Area Ultimate Primary Reserves}} \quad \times \quad 75$$

Plus

Total Tract Producing Rate for the Six (6) Months prior to June, 1961		
<u>Total Unit Area Producing Rate for the Six (6) Months prior to June, 1961</u>	X	10

Plus

<u>Total Tract Productive Acreage</u>		
<u>Total Unit Area Productive Acreage</u>	X	15

= Tract Secondary Percentage Participation

5.2 Relative Tract Participations. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

ARTICLE 6

ALLOCATION OF UNITIZED SUBSTANCES

6.1 Allocation to Tracts. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

6.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain, and operate

within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

6.4 Failure to Take in Kind. If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, but not the obligation, to purchase for its own account or sell to others such share at not less than the average market price for all such sales from the Unitized Formation; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. If, under the provisions of this paragraph, Unit Operator contracts to sell in interstate commerce any gas not taken in kind or separately disposed of by the owning party, Unit Operator shall give such owning party ninety (90) days notice of such sale.

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

6.6 Royalty On Outside Substances. If any Outside Substances, consisting of natural gases, are injected into the Unitized Formation, fifty percent (50%) of any like substances contained in Unitized Substances subsequently produced and sold, or used for other than operations hereunder, shall be deemed to be Outside Substances until the aggregate of said fifty percent (50%) equals the accumulated

volume of such natural gases injected into the Unitized Formation. If the Outside Substances injected be liquefied petroleum gases, or other liquid hydrocarbons, as distinguished from natural gases then, beginning one (1) year after injection of such liquefied petroleum gases or other liquid hydrocarbons is commenced, ten percent (10%) of all Unitized Substances produced and sold from the Unitized Formation shall be deemed to be Outside Substances until the aggregate value of said ten percent (10%) equals the entire accumulated cost to the Working Interest Owners of such liquefied petroleum gases or other liquid hydrocarbons injected. No payments shall be due or payable to Royalty Owners on any substance which is classified hereby as an Outside Substance.

ARTICLE 7

PRODUCTION AS OF THE EFFECTIVE DATE

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

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

ARTICLE 8

USE OR LOSS OF UNITIZED SUBSTANCES

8.1 Use of Unitized Substances. Working Interest Owners may use as much of the Unitized Substances as they deem necessary for Unit Operations, including but not limited to the injection thereof into the Unitized Formation.

8.2 Royalty Payments. No royalty, overriding royalty, production, or other payments shall be payable upon, or with respect to, Unitized Substances used or consumed in Unit Operations, or which otherwise may be lost or consumed in the production, handling, treating, transportation, or storing of Unitized Substances.

ARTICLE 9

TRACTS TO BE INCLUDED IN UNIT

9.1 Qualification of Tracts. On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit A that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

9.1.1 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning eighty five percent (85%) or more of the Royalty Interest have become parties to this agreement.

9.1.2 Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than eighty five percent (85%) of the Royalty Interest have become parties to this agreement, and as to which (a) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, and as to which (b) eighty five percent (85%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 9.1.1 have voted in favor of the inclusion of such Tract. For the purpose of this Section 9.1.2, the voting interest of a Working Interest Owner shall be equal to the ratio that its Unit Secondary Percentage Participation attributable to Tracts that qualify under Section 9.1.1 bears to the total Unit Secondary Percentage Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 9.1.1.

9.1.3 Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have

become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an indemnity agreement agreeing to indemnify and hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties to this agreement, and which arise out of the inclusion of the Tract in the Unit Area; and as to which (b) eighty five percent (85%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Section 9.1.1 and 9.1.2 have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purpose of this Section 9.1.3, the voting interest of each Working Interest Owner shall be equal to the ratio that its Unit Secondary Percentage Participation attributable to Tracts that qualify under Sections 9.1.1 and 9.1.2 bears to the total Unit Secondary Percentage Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 9.1.1 and 9.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working Interests in the Tract.

9.2 Subsequent Commitment of Interest to Unit. After the effective date hereof, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest, but not more favorable to the owner of such interest than the basis upon which Tracts were admitted on the effective date of this agreement.

9.3 Revision of Exhibits. If any of the Tracts in Exhibit A fail to qualify for inclusion in the Unit Area on the effective date hereof Unit Operator shall recompute, using the original basis of computation, the Tract Participation of each of the qualifying Tracts and shall revise Exhibit A and B accordingly, to be effective as of the effective date hereof upon approval by the Commissioner of Public Lands of the State of New Mexico.

ARTICLE 10

TITLES

10.1 Removal of Tract from Unit Area. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 9 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area effective as of the first day of the calendar month in which the failure of title is finally determined; however, the Tract shall not be removed from the Unit Area if, within ninety (90) days of the date of final determination of the failure of title, the Tract requalifies under a Section of Article 9.

10.2 Revision of Exhibits. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 5.2, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A and B accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

10.3 Working Interest Titles. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.4 Royalty Owner Titles. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

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

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

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

ARTICLE 11

EASEMENTS OR USE OF SURFACE

11.1 Grant of Easements. The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations; provided that, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or camp site.

11.2 Use of Water. Working Interest Owners shall have free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner.

11.3 Surface Damages. Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

ARTICLE 12

ENLARGEMENTS OF UNIT AREA

12.1 Enlargements of Unit Area. The Unit Area may be enlarged to include acreage reasonably proved to be productive, upon such terms as may be determined by Working Interest Owners and upon approval by the Commissioner of Public Lands of the State of New Mexico and the Oil Conservation Commission of the State of New Mexico, including but not limited to, the following:

12.1.1 The acreage shall qualify under a Section of Article 9.

12.1.2 The participation to be allocated to the acreage shall be reasonable, fair, and based on all available information.

12.1.3 There shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

12.2 Determination of Tract Participation. Unit Operator, subject to Section 5.2, shall determine the Tract Participation of each Tract within the Unit Area as enlarged, and shall revise Exhibits A and B accordingly.

12.3 Effective Date. The effective date of any enlargement of the Unit Area shall be 7:00 a.m. on the first day of the calendar month following compliance with conditions for enlargement as specified by Working Interest Owners, approval of the enlargement by the appropriate governmental authority, if required, and the filing for record of revised Exhibits A and B in the records of the County or Counties in which this agreement is recorded.

ARTICLE 13

CHANGE OF TITLE

13.1 Covenant Running With the Land. This agreement shall extend to, be binding upon, and inure to the benefit of, the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

13.2 Notice of Transfer. Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding on the Unit Operator, or upon any party hereto other than the party so transferring, until the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy or a certified copy of the recorded instrument evidencing such change in ownership.

13.3 Waiver of Rights to Partition. Each party hereto covenants that, during the existence of this agreement, it will not resort to any action to partition the Unit Area or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14

RELATIONSHIP OF PARTIES

14.1 No Partnership. The duties, obligations, and liabilities of the parties

hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

14.2 No Sharing of Market. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

14.3 Royalty Owners Free of Costs. This agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

14.4 Information to Royalty Owners. Each Royalty Owner upon written request therefor shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Laws and Regulations. This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and orders of the Oil Conservation Commission of New Mexico; and to all other applicable federal, state, and municipal laws, rules, regulations, and orders.

ARTICLE 16

FORCE MAJEURE

16.1 Force Majeure. All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by federal, state, or municipal laws; by any rule, regulation, or order of a governmental agency; by inability to secure materials; or by any other cause or causes beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

ARTICLE 17

EFFECTIVE DATE

17.1 Effective Date. This agreement shall become binding upon each party as

of the date such party signs the instrument by which it becomes a party hereto, and, unless sooner terminated as provided in Section 17.2, shall become effective as to qualified Tracts at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Lea County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 9, the book and page in which a counterpart of this agreement has been recorded, and the case number and order number of the order of approval by Governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

17.1.1 Tracts comprising eighty five percent (85%) or more of the Unit Area as shown on the original Exhibit B have qualified under the provisions of Article 9.

17.1.2 At least one counterpart of this agreement has been filed for record by Unit Operator in Lea County, New Mexico.

17.1.3 This agreement has been approved by the Oil Conservation Commission of the State of New Mexico.

17.1.4 This agreement has been **approved** by the Commissioner of Public Lands of the State of New Mexico.

17.2 Ipsa Facto Termination. If the requirements of Section 17.1 are not accomplished on or before July 1, 1962, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Secondary Percentage Participation of at least eighty five percent (85%) have become parties to this agreement and have decided to extend the termination date for a period not to exceed six (6) months. If the termination date is so extended and the requirements of Section 17.1 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this section, Unit Participation shall be as shown on the original Exhibit C attached to the Unit Operating Agreement.

ARTICLE 18

TERM

18.1 Term. The term of this agreement shall be for the time that Unitized Substances are produced in paying quantities and as long thereafter as Unit

Operations are conducted without a cessation of more than one hundred eighty (180) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

18.2 Termination by Working Interest Owners. This agreement may be terminated by Working Interest Owners having a combined Unit Secondary Percentage Participation of at least eighty five percent (85%) whenever such Working Interest Owners determine that Unit Operations are no longer profitable or feasible.

18.3 Effect of Termination. Upon termination of this agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, Unit Operations shall cease, and thereafter the parties shall be governed by the provisions of the leases and other instruments affecting the separate Tracts.

18.4 Salvaging Equipment Upon Termination. If not otherwise granted by the leases or other instruments affecting each Tract unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after the date of termination of this agreement within which to salvage and remove Unit Equipment.

ARTICLE 19

EXECUTION

19.1 Original, Counterpart, or Other Instrument. A person may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

19.2 Joinder in Dual Capacity. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests that may be owned or controlled by such party.

ARTICLE 20

GENERAL

20.1 Amendments Affecting Working Interest Owners. Amendments hereto relating

wholly to Working Interest Owners may be made if signed by all Working Interest Owners.

20.2 Action by Working Interest Owners. Any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.3 Lien of Unit Operator. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

IN WITNESS WHEREOF, The parties hereto have executed this agreement on the dates opposite their respective signatures.

WORKING INTEREST OWNERS

DATE: _____

ATTEST:

By _____

Its _____

THE BRITISH-AMERICAN OIL PRODUCING COMPANY

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

AMERADA PETROLEUM CORPORATION

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

AZTEC OIL & GAS COMPANY

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

CARPER DRILLING COMPANY, INC.

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

DIXILYN CORPORATION

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

DATE: _____

ATTEST:

By _____

Its _____

GULF OIL CORPORATION

By _____

Its _____

TEXACO, INC.

By _____

Its _____

ROYALTY OWNERS

DATE: _____

DATE: _____

DATE: _____

DATE: _____

STATE OF }
County of }

Before me, the undersigned authority, on this day personally appeared _____, _____ President of _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at _____, this the _____ day of _____, A.D., 19____.

My commission expires: _____
Notary Public

STATE OF }
County of }

Before me, the undersigned authority, on this day personally appeared _____, _____ President of _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at _____, this the _____ day of _____, A.D., 19____.

My commission expires: _____
Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires: _____
Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

EXHIBIT A

TO

UNIT AGREEMENT

JAIMAT FIELD YATES SAND UNIT

LEA COUNTY, NEW MEXICO

TRACT DESCRIPTION, TRACT OWNERSHIP
AND TRACT PARTICIPATION PERCENTAGE
4-1-62

Tract No. (Lease Name)	*Tract Description	No. Acres	State Lease No. and Date of Lease	Lessee of Record	Royalty Interest Ownership and Percentage	Working Interest Ownership and Percentage	Tract Participation Percentage	
							Primary	Secondary
1 (Randel-A)	S/2 S/2 Sec. 2	160	E-266 4-10-44	Carper Drilling Company, Inc.	State of New Mexico 12.500000 L. A. Crancer 1.562500 Morris Mizel 0.781250 Sam Mizel 0.781250 O. H. Randel 3.125000 Robert E. Boling 1.000000	Carper Drilling Company, Inc. 100.000000	3.36558	2.19415
2 (Atlantic-State)	SE/4 SE/4 Sec. 3	40	E-8322 7-20-54	The Atlantic Refining Company	State of New Mexico 12.500000 The Atlantic Refining Company 5.468750	Dixilyn Corporation 100.000000 After Payout Dixilyn Corporation 75.000000 John F. Younger et ux 25.000000	0.52222	0.61222
3 (Phillips-State)	N/2 NE/4 Sec. 10	80	E-1932 6-10-48	Phillips Petroleum Company	State of New Mexico 12.500000 Phillips Petroleum Company 9.375000	Dixilyn Corporation 100.000000 After Payout Dixilyn Corporation 75.000000 John F. Younger et ux 25.000000	2.71190	2.10605

TO
UNIT AGREEMENT
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO
TRACT DESCRIPTION, TRACT OWNERSHIP
AND TRACT PARTICIPATION PERCENTAGE
4-1-62

Tract No. (Lease Name)	Tract Description	No. Acres	State Lease No. and Date of Lease	Royalty Interest Ownership and Percentage	Working Interest Ownership and Percentage	Tract	
						Participation Percentage Primary	Secondary
4 (State-J-10)	SE/4 Sec. 10	160	E-6019-1 2-11-52	State of New Mexico 12.500000	Aztec Oil and Gas Company 100.000000	0.75019	1.17730
5 (State-WEL)	W/2 NW/4 Sec. 11	80	E-1625 12-10-47	State of New Mexico 12.500000	Amerada Petroleum Corporation 100.000000	2.77286	2.56859
6 (Hall-State F)	E/2 NW/4, NE/4 & S/2 Sec. 11	560	The British-American E-8244 Oil Producing Company 6-15-54	State of New Mexico 12.500000	The British-American Oil Producing Company 100.000000	26.36584	28.88651
7 (Randel-C)	W/2 Sec. 12	320	Carper Drilling Company, Inc. 4-10-44	State of New Mexico 12.500000 L. A. Crancer 1.562500 Morris Mizel 0.781250 Sam Mizel 0.781250 O. H. Randel 3.125000 Robert E. Boling 1.000000	Carper Drilling Company, Inc. 100.000000	2.59299	3.52852
8 (State-BZ)	N/2 Sec. 13	320	Texaco, Inc. 8-14-31	State of New Mexico 12.500000	Texaco, Inc. 100.000000	4.84927	5.57382

EXHIBIT A

TO

UNIT AGREEMENT

JAIMAT FIELD YATES SAND UNIT

IEA COUNTY, NEW MEXICO

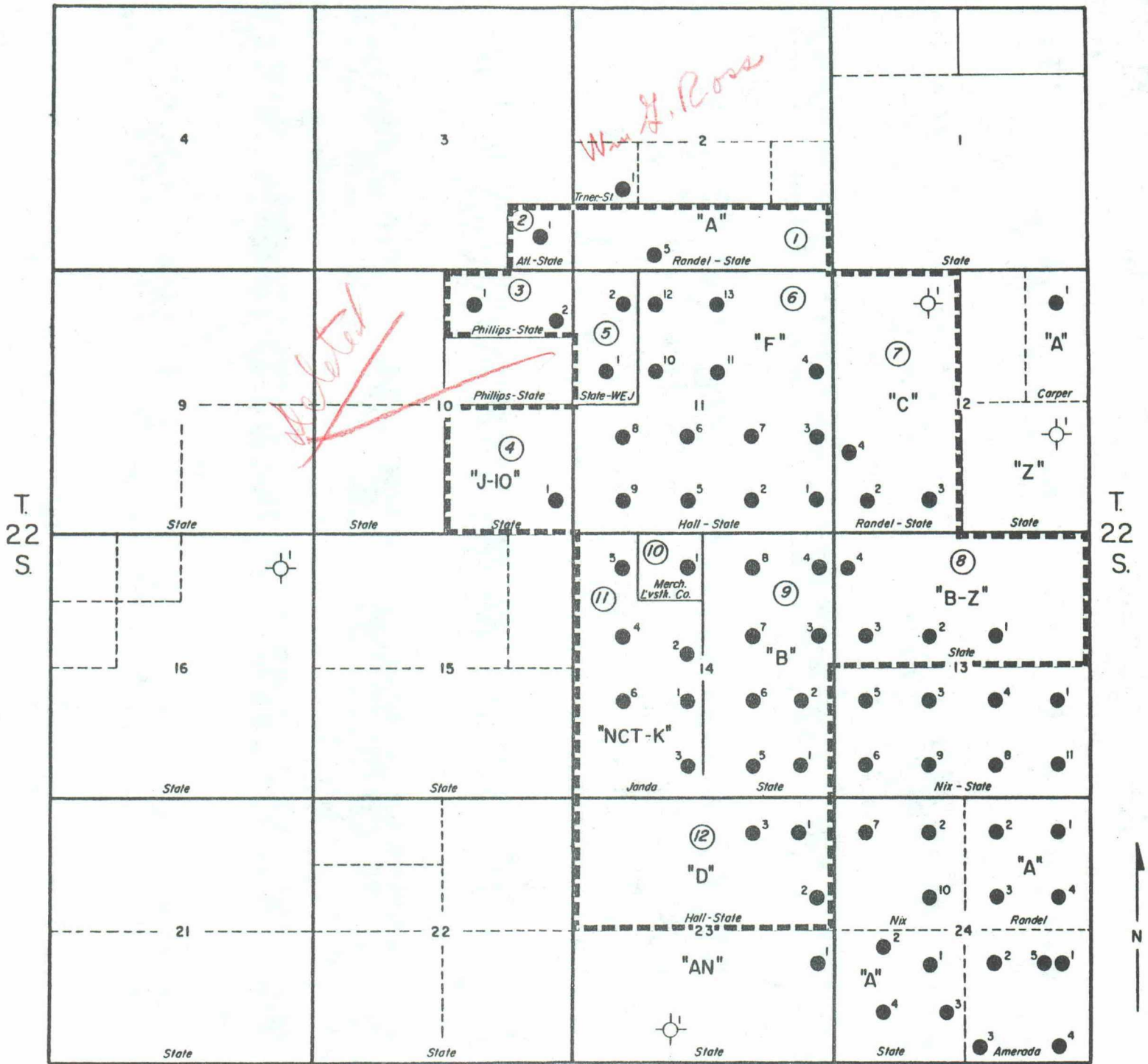
TRACT DESCRIPTION, TRACT OWNERSHIP
AND TRACT PARTICIPATION PERCENTAGE

4-1-62

Tract No. (Lease Name)	Tract Description	No. Acres	Lessee of Record	State Lease No. and Date of Lease	Royalty Interest Ownership and Percentage	Working Interest Ownership and Percentage	Tract Participation Percentage	
							Primary	Secondary
9 (State-B)	E/2 Sec. 14	320	The British-American Oil Producing Company	E-8173 5-18-54	State of New Mexico 12.500000	The British-American Oil Producing Company 100.000000	22.77251	26.74397
10 (Merchants Livestock)	NE/4 NW/4 Sec. 14	40	The British-American Oil Producing Company	Fee	The Merchants Live- stock Company 25.000000	The British-American Oil Producing Company 100.000000	5.93640	3.74621
11 (Janda-NCT-K)	NW/4 NW/4, S/2 NW/4 & SW/4 Sec. 14	280	Gulf Oil Corporation	E-229 9-10-31	State of New Mexico 12.500000	Gulf Oil Corporation 100.000000	22.91078	16.76495
12 (Hall-State D)	N/2 Sec. 23	320	The British-American Oil Producing Company	E-8244 6-15-54	State of New Mexico 12.500000	The British-American Oil Producing Company 100.000000	4.44946	6.09771
Total State of New Mexico Land							100.00000	100.00000
Total Fee Land							100.00000	100.00000
Total Land In Unit							100.00000	100.00000

*All described tracts in T22S-R35E N.M.P.M.

R. 35 E.



R. 35 E.

- Unit Area
- Tract Boundary
- ⑦ Tract Number
- Producing Well, Yates Sand

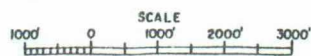


EXHIBIT "B"
to the
UNIT AGREEMENT
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

Insert

Color Page/Photo

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UNIT OPERATING AGREEMENT
for the
JALMAT FIELD
YATES SAND UNIT
LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
Jalmat Field Yates Sand Unit
Lea County, New Mexico

THIS AGREEMENT, entered into as of the first day of April, 1962, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, The parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement, Jalmat Field Yates Sand Unit, Lea County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

2.1.3 Exhibit D, attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2.1.4 Exhibit E, attached hereto, which contains insurance provisions applicable to Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Seven thousand five hundred Dollars (\$7,500); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is two thousand Dollars (\$2,000) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that, the audits shall

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days' written notice to Unit Operator.

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

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Secondary Percentage Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Secondary Percentage Participation.

4.3.2 Vote Required--Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of three (3) or more Working Interest Owners owning seventy five percent (75%) or more voting interest; provided that, should any one Working Interest Owner have more than seventy five percent (75%) voting interest, its vote must be supported by the vote of two (2) or more Working Interest Owners having a combined voting interest of at least five percent (5%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item or may delegate his vote by proxy to a working interest owner or representative thereof who does attend the meeting provided the representative of Unit Operator is notified of the proxy by letter or telegram prior to the vote on the item or items to which the proxy applies.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. The British-American Oil Producing Company is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least seventy five percent (75%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least seventy five percent (75%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

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

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of seven thousand five hundred Dollars (\$7,500) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

7.11 Border Agreements. Subject to the approval of the appropriate governmental authority or authorities, the Unit Operator, with the approval of Working Interest Owners according to Paragraph 4.3.2 hereof may enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall do the following:

9.1.1 Comply with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employer's Liability Insurance with a minimum coverage of twenty-five thousand dollars (\$25,000) and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit E.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date hereof, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate in accordance with the provisions of Exhibit D the personal property taken over. Casing shall be included in the inventory and adjustment but shall be priced at no value.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Secondary Percentage Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

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

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner hereby exchanges its interest in all of the personal property described in Paragraph 10.1 that it contributes to the Unit for its proportionate interest in all such property described in Paragraph 10.1 that is contributed to the Unit. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Secondary Percentage Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of operating expense shall be the same as its Unit Participation at the time such expenses are incurred; and each Working Interest Owner's share of the costs of capital improvements shall be its Unit Secondary Percentage Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each October thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the rate of eight percent (8%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations in effect at the time such burden or benefit due to uncommitted royalty as described herein, is incurred; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized

Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit C, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of one thousand Dollars (\$1,000) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws,

regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

ARTICLE 16

NOTICES

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor, for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit

Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, as estimated by

Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

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

ARTICLE 21

EXECUTION

21.1 Original Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

IN WITNESS WHEREOF, The parties hereto have executed this agreement on the dates opposite their respective signatures.

WORKING INTEREST OWNERS

DATE: April 23, 1962

THE BRITISH-AMERICAN OIL PRODUCING COMPANY

ATTEST:

By *McKown*

By *McKown*

Its Vice President

Its Mayo E. McKown

SECRETARY

DATE: _____

AMERADA PETROLEUM CORPORATION

ATTEST:

By _____

By _____

Its _____

Its _____

STATE OF Texas }
County of Dallas }

Before me, the undersigned authority, on this day personally appeared H. E. Schoenck, Vice President of The British American Oil Producing Co. known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said The British American Oil Producing Co., a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Dallas, Texas, this the 23rd day of April, A.D., 1962.

My commission expires: June 1, 1963
Wm. H. Warner
Notary Public

STATE OF _____ }
County of _____ }

Before me, the undersigned authority, on this day personally appeared _____, _____ President of _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at _____, this the _____ day of _____, A.D., 19____.

My commission expires: _____
Notary Public

STATE OF _____ }
County of _____ } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires: _____
Notary Public

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book 185 at Page 106 of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 2nd day of May, 1962.

ATTEST:

J. R. Humphreys
Assistant Secretary

AMERADA PETROLEUM CORPORATION

By [Signature]
JOHN P. HAMMOND, Vice President

Address: P. O. Box 2040

Tulsa 2, Oklahoma

STATE OF OKLAHOMA }
County of TULSA } ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this 2nd day of May, 1962, personally appeared JOHN P. HAMMOND, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (~~she~~), (~~they~~) executed the same as his (~~her~~), (~~their~~) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

[Signature]
Notary Public

STATE OF OKLAHOMA }
County of TULSA } ss

Before me, the undersigned authority, on this day personally appeared John P. Hammond, Vice President of Amerada Petroleum Corporation, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Tulsa, Oklahoma, this the 2nd day of May, A.D., 1962.

My commission expires:

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book 185 at Page 106 of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 27th day of April, 1962.

ATTEST:

Richard L. Hand
Secretary

AZTEC OIL & GAS COMPANY

By Quilman B. Davis
Vice President

Address: 920 Mercantile Securities Bldg.

Dallas 1, Texas

STATE OF TEXAS }
County of DALLAS } ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (she), (they) executed the same as his (her), (their) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF TEXAS }
County of DALLAS } ss

Before me, the undersigned authority, on this day personally appeared Quilman B. Davis, Vice President of AZTEC OIL & GAS COMPANY, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Dallas, Texas, this the 27th day of April, A.D., 1962.

My commission expires:

June 1, 1963

Naomi D. Langston
Notary Public

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book 185 at Page 106 of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 18 day of April, 1962.

ATTEST:

William A. Caskey

Carper Drilling Company, Inc.

Marshall Rowley, Exec. Vice-Pres.

Address: 200 Carper Building

Artesia, New Mexico

STATE OF _____ }
County of _____ } ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (she), (they) executed the same as his (her), (their) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF New Mexico }
County of Eddy } ss

Before me, the undersigned authority, on this day personally appeared Marshall Rowley Exec., Vice President of Carper Drilling Company, Inc., a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Artesia, New Mexico, this the 18 day of April, A.D., 1962.

My commission expires:

10-6-63

Robert E. Baling
Notary Public

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book 185 at Page 106 of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 20th day of April, 1962.

ATTEST:

Robert L. Chappell
Secretary

DIXILYN CORPORATION

M. O. Boring, Jr.
President
Address: Box 3427, Odessa, Texas

STATE OF TEXAS)
County of ECTOR) ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this 20th day of April, 1962, personally appeared M. O. Boring, Jr., to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (~~she~~), (~~they~~) executed the same as his (~~her~~), (~~their~~) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF TEXAS)
County of ECTOR) ss

Before me, the undersigned authority, on this day personally appeared M. O. Boring, Jr., President of DIXILYN CORPORATION, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Odessa, Texas, this the 20th day of April, A.D., 1962.

My commission expires:

6/1/63

(Mary M. Orr)
Ector County, Texas

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book 185 at Page 106 of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 18th day of May, 1962.

ATTEST

H. C. Kinnaman
Assistant Secretary

GULF OIL CORPORATION

W. A. Shellshear
Attorney in Fact
Address: Post Office Box 1938
Roswell, New Mexico

Law	<u>OK</u>
Commr.	
Exp.	
Proc.	<u>MO</u>

STATE OF _____ }
County of _____ } ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (she), (they) executed the same as his (her), (their) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF NEW MEXICO }
County of CHAVES } ss

Before me, the undersigned authority, on this day personally appeared W. A. Shellshear, Attorney in Fact, ~~XXXXXXXXXXXX~~ of Gulf Oil Corporation, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Roswell, New Mexico, this the 18th day of May, A.D., 1962.

My commission expires:

Notary Public

Ed Marie Cooper
Notary Public

CONSENT, RATIFICATION AND JOINDER
TO UNIT AGREEMENT AND UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

In consideration of the execution or ratification by the other working interest owners of the Unit Agreement and Unit Operating Agreement each dated April 1, 1962, for the development and operation of the Jalmat Field Yates Sand Unit, Lea County, New Mexico, a copy of which Unit Agreement is recorded in Book _____ at Page _____ of the Records of Lea County, New Mexico, reference to which is here made for all purposes, and a copy of which Unit Agreement and Unit Operating Agreement have been furnished the undersigned owners of leasehold or working interest or other interests in production covered by said Unit Agreement hereby severally, each to the extent of its particular ownership or interest, consent to the inclusion of said land within the Unit Area defined in the above mentioned Unit Agreement; ratify, approve and adopt the terms of the said Unit Agreement and said Unit Operating Agreement as fully as though the undersigned had executed the original Agreements; agree that the terms of any lease or contract given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement; agree that the drilling and development requirements of all leases and other contracts in which its several rights and interests are created or defined shall be deemed fully performed by the performance of the provisions of said Unit Agreement and Unit Operating Agreement; and agree that costs shall be allocated and paid as provided in said Unit Operating Agreement.

This consent, ratification and joinder may be executed in any number of counterparts and each executed counterpart hereof shall have the same force and effect as to the party executing the same as if each and every party signing a counterpart hereof had signed the Unit Agreement and Unit Operating Agreement and by the execution hereof the undersigned does hereby acknowledge the incorporation hereof by reference of all of the terms and provisions of said Unit Agreement and Unit Operating Agreement and does hereby agree to all of such terms and provisions.

EXECUTED this the 25th day of May, 1962.

ATTEST: Approved as to:
Terms W.B. E.H.T.
Form W.B.
Acctg W.B.

TEXACO Inc.

By Ben Bruck Attorney-in-Fact

Address: P. O. Box 3109

Midland, Texas

STATE OF _____ }
County of _____ } ss

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he (she), (they) executed the same as his (her), (their) free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF TEXAS }
County of MIDLAND } ss

Before me, the undersigned authority, on this day personally appeared _____, ~~President of~~ Attorney-in-Fact for TEXACO Inc., _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at Midland, Texas, this the 25th day of May, A.D., 1962.

My commission expires:

June 1, 1963

Clayton T. Taylor
Notary Public

STATE OF)
County of)

Before me, the undersigned authority, on this day personally appeared _____, _____ President of _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at _____, this the _____ day of _____, A.D., 19____.

My commission expires:

Notary Public

STATE OF)
County of)

Before me, the undersigned authority, on this day personally appeared _____, _____ President of _____, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of the said _____, a corporation, and that he having been duly authorized by the Board of Directors of said corporation, executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office at _____, this the _____ day of _____, A.D., 19____.

My commission expires:

Notary Public

STATE OF)
County of) ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

STATE OF }
County of } ss.

Before me, the undersigned, a Notary Public, in and for said County and State, on this _____ day of _____, 19____, personally appeared _____, to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires:

Notary Public

EXHIBIT C
TO
UNIT OPERATING AGREEMENT
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO
TRACT WORKING INTEREST OWNERSHIP AND
WORKING INTEREST OWNERS UNIT PARTICIPATION PERCENTAGE
4-1-62

Tract No.	Working Interest Owner	Working Interest Owner Percentage of Tract Ownership	Unit	
			Participation Primary	Percentage Secondary
1	Carper Drilling Company, Inc.	100.00000	3.36558	2.19415
2	Dixilyn Corporation*	100.00000*	0.52222	0.61222
3	Dixilyn Corporation*	100.00000*	2.71190	2.10605
4	Aztec Oil & Gas Company	100.00000	0.75019	1.17730
5	Amerada Petroleum Corporation	100.00000	2.77286	2.56859
6	The British-American Oil Producing Company	100.00000	26.36584	28.88651
7	Carper Drilling Company, Inc.	100.00000	2.59299	3.52852
8	Texaco, Inc.	100.00000	4.84927	5.57382
9	The British-American Oil Producing Company	100.00000	22.77251	26.74397
10	The British-American Oil Producing Company	100.00000	5.93640	3.74621
11	Gulf Oil Corporation	100.00000	22.91078	16.76495
12	The British-American Oil Producing Company	100.00000	4.44946	6.09771
			<hr/>	<hr/>
			100.00000	100.00000

*Subject to carried interest of undivided 25% owned by John F. Younger et ux, to become effective when captioned lands reach payout status.

EXHIBIT C
SUMMARY
WORKING INTEREST OWNERS UNIT PARTICIPATION PERCENTAGE
4-1-62

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Unit Participation Percentage</u>	
		<u>Primary</u>	<u>Secondary</u>
Amerada Petroleum Corporation	5	2.77286	2.56859
Aztec Oil & Gas Company	4	0.75019	1.17730
The British-American Oil Producing Company	6	26.36584	28.88651
	9	22.77251	26.74397
	10	5.93640	3.74621
	12	4.44946	6.09771
		<u>59.52421</u>	<u>65.47440</u>
Carper Drilling Company, Inc.	1	3.36558	2.19415
	7	2.59299	3.52852
		<u>5.95857</u>	<u>5.72267</u>
Dixilyn Corporation	2	0.52222	0.61222
	3	2.71190	2.10605
		<u>3.23412</u>	<u>2.71827</u>
Gulf Oil Corporation	11	22.91078	16.76495
Texaco, Inc.	8	4.84927	5.57382
		<u>100.00000</u>	<u>100.00000</u>

Attached to and made a part of Unit Operating Agreement
for the Jalmat Field Yates Sand Unit
Lea County, New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

2. Statements and Billings

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

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

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

C. Statements as follows:

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

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

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

3. Payments by Non-Operator

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

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

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

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 3 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

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

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

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

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

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

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

The printed provisions of this subsection having been deleted, it is agreed that in lieu thereof, the services of Operator's Southwestern District production office located at Midland, Texas (or a comparable office if location changed) and necessary suboffices shall be charged for at the rate of Forty Two Dollars (\$42.00) per month for each producing well, injection well and water supply well; and at the rate of Two Hundred Ninety Four Dollars (\$294.00) per month for each drilling well and well being worked over with drilling tools, provided that these rates may be amended from time to time by agreement between Operator and Non-Operators if, after a reasonable length of time, they are found to be insufficient or excessive.

12. Administrative Overhead

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

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE Each Well	PRODUCING WELL RATE (Use Completion Depth)		
		First Five	Next Five	All Wells Over Ten
Less than 8000'	\$200.00	\$50.00	\$40.00	\$30.00

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

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

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

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

None.

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

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

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

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

2. Division in Kind

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

3. Sales to Outsiders

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

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

4. Other Used Material

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

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

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

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

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

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

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

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

EXHIBIT "E"
TO
UNIT OPERATING AGREEMENT
JALMAT FIELD YATES SAND UNIT
LEA COUNTY, NEW MEXICO

In addition to the insurance coverage set out in Article 9, hereof, Operator shall carry the following insurance for the benefit and protection of the joint account:

- (1) Comprehensive General Public Liability Insurance with limits, (1) as to Bodily Injury of not less than one hundred thousand dollars (\$100,000.00) for each person and not less than three hundred thousand dollars (\$300,000.00) for each accident, and (2) as to Property Damage of not less than one hundred thousand dollars (\$100,000.00) for each accident.
- (2) Automobile Public Liability Insurance with limits, (1) as to Bodily Injury of not less than one hundred thousand dollars (\$100,000.00) for each person and not less than three hundred thousand dollars (\$300,000.00) for each accident, and (2) as to property damage of not less than one hundred thousand dollars (\$100,000.00) for each accident.

The premiums for all such insurance shall be charged to the joint account, except that in respect of operator's fully owned automotive equipment used in connection with the joint operations, applicable premiums shall not be charged specifically to the joint account. It is understood and agreed that Operator shall not carry insurance covering loss by fire, windstorm, explosion, or tornado or any other insurance for the joint account except as may be decided by the parties hereto according to the requirements of Paragraph 4.3 hereof. It is also understood and agreed that the insurance coverage stated herein may be revised as decided by the parties hereto according to the requirements of Paragraph 4.3 hereof.