

CERTIFICATION--DETERMINATION

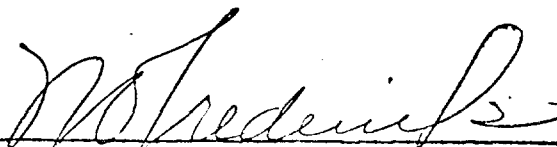
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Four Forks Unit Area, State of New Mexico.

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

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

Dated August 30, 1972.

  
Area Oil and Gas Supervisor  
U. S. Geological Survey

Contract Number 14-08-0001-12392

EXHIBIT NO. 4  
EASEMENT NO. 4814  
Submitted By  
Hearing Date 9-13-72

Exhibit #4

CERTIFICATION--DETERMINATION

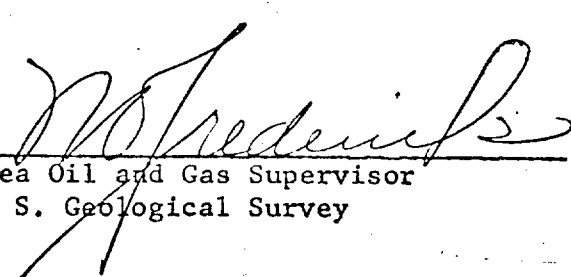
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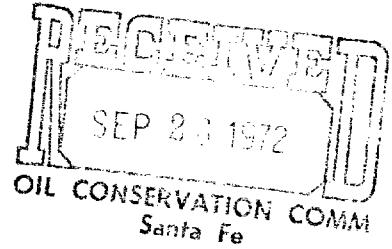
  
Area Oil and Gas Supervisor  
U. S. Geological Survey

Contract Number 14-08-0001-12392

*Exhibit H4*



September 25, 1972



State of New Mexico  
Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico

Re: CASE NO. 4814  
ORDER NO. R-4395  
FOUR FORKS UNIT

Gentlemen:

Pursuant to the above order, we enclose herewith one copy each of the Unit Agreement and Unit Operating Agreement for the Four Forks Unit, Eddy County, New Mexico. Attached to each is a full set of Consent and Ratification instruments.

Yours very truly,

INEXCO OIL COMPANY

A handwritten signature in cursive script, appearing to read 'Wm. J. Green'.

Wm. J. GREEN

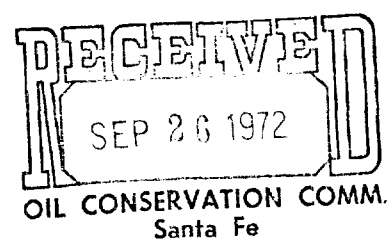
Wm. JG/jl

enclosures

Free copy

FOUR FORKS  
UNIT AGREEMENT

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- Exhibit A: Map of Unit Area
- Exhibit B: Schedule of Lands and Leases

1 UNIT AGREEMENT 1

2 FOR THE DEVELOPMENT AND OPERATION 2

3 OF THE 3

4 FOUR FORKS UNIT AREA 4

5 COUNTY OF EDDY 5

6 STATE OF NEW MEXICO 6

7 NO. \_\_\_\_\_ 7

8 THIS AGREEMENT, entered into as of the 28<sup>th</sup> day of July 8  
9 1972, by and between the parties subscribing, ratifying, or con- 9  
10 senting hereto, and herein referred to as the "parties hereto," 10

11 WITNESSETH: 11

12 WHEREAS the parties hereto are the owners of working, royalty, 12  
13 or other oil and gas interests in the unit area subject to this 13  
14 agreement; and 14

15 WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat. 15  
16 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal 16  
17 lessees and their representatives to unite with each other, or 17  
18 jointly or separately with others, in collectively adopting and 18  
19 operating a cooperative or unit plan of development or operation 19  
20 of any oil or gas pool, field, or like area, or any part thereof 20  
21 for the purpose of more properly conserving the natural resources 21  
22 thereof whenever determined and certified by the Secretary of the 22  
23 Interior to be necessary or advisable in the public interest; and 23

24 WHEREAS, the Oil Conservation Commission of the State of 24  
25 New Mexico is authorized by an Act of the Legislature (Article 3, 25  
26 Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this agree- 26  
27 ment and the conservations provisions hereof; and 27

28 WHEREAS, the parties hereto hold sufficient interests in the 28  
29 Four Forks Unit Area covering the land hereinafter described to 29  
30 give reasonably effective control of operations therein; and 30

1           WHEREAS, it is the purposes of the parties hereto to conserve 1  
2 natural resources, prevent waste, and secure other benefits obtain- 2  
3 able through development and operation of the area subject to this 3  
4 agreement under the terms, conditions and limitations herein set 4  
5 forth; 5

6           NOW, THEREFORE, in consideration of the premises and the 6  
7 promises herein contained, the parties hereto commit to this agree- 7  
8 ment their respective interests in the below-defined unit area, and 8  
9 agree severally among themselves as follows: 9

10           1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 10  
11 February 25, 1920, as amended, supra, and all valid pertinent regu- 11  
12 lations, including operating and unit plan regulations, heretofore 12  
13 issued thereunder or valid, pertinent, and reasonable regulations 13  
14 hereafter issued thereunder are accepted and made a part of this 14  
15 agreement as to Federal lands, provided such regulations are not 15  
16 inconsistent with the terms of this agreement; and as to non-Federal 16  
17 lands, the oil and gas operating regulations in effect as of the 17  
18 effective date hereof governing drilling and producing operations, 18  
19 not inconsistent with the terms hereof or the laws of the State in 19  
20 which the non-Federal land is located, are hereby accepted and made 20  
21 a part of this agreement. 21

22           2. UNIT AREA. The area specified on the map attached hereto 22  
23 marked Exhibit A is hereby designated and recognized as constituting 23  
24 the unit area, containing 3,172.73 acres, more or less. 24

25           Exhibit A shows, in addition to the boundary of the unit area, 25  
26 the boundaries and identity of tracts and leases in said area to 26  
27 the extent known to the Unit Operator. Exhibit B attached hereto 27  
28 is a schedule showing to the extent known to the Unit Operator the 28  
29 acreage, percentage, and kind of ownership of oil and gas interests 29  
30 in all land in the unit area. However, nothing herein or in said 30

1 schedule or map shall be construed as a representation by any 1  
2 party hereto as to the ownership of any interest other than such 2  
3 interest or interests as are shown in said map or schedule as owned 3  
4 by such party. Exhibits A and B shall be revised by the Unit 4  
5 Operator whenever changes in the unit area render such revision 5  
6 necessary, or when requested by the Oil and Gas Supervisor, herein- 6  
7 after referred to as "Supervisor" and not less than five copies of 7  
8 the revised Exhibits shall be filed with the Supervisor. 8

9 The above-described unit area shall when practicable be ex- 9  
10 panded to include therein any additional lands or shall be con- 10  
11 tracted to exclude lands whenever such expansion or contraction is 11  
12 deemed to be necessary or advisable to conform with the purposes of 12  
13 this agreement. Such expansion or contraction shall be effected in 13  
14 the following manner: 14

15 (a) Unit Operator, on its own motion or on demand of the 15  
16 Director of the Geological Survey, hereinafter referred to as 16  
17 "Director", after preliminary concurrence by the Director, shall 17  
18 prepare a notice of proposed expansion or contraction describing 18  
19 the contemplated changes in the boundaries of the unit area, the 19  
20 reasons therefor, and the proposed effective date thereof, preferably 20  
21 the first day of a month subsequent to the date of notice. 21

22 (b) Said notice shall be delivered to the Supervisor, and 22  
23 copies thereof mailed to the last known address of each working 22  
24 interest owner, lessee, and lessor whose interests are affected, 22  
25 advising that 30 days will be allowed for submission to the Unit 22  
26 Operator of any objections. 22

27 (c) Upon expiration of the 30-day period provided in the 22  
28 preceding item (b) hereof, Unit Operator shall file with the Super- 22  
29 visor evidence of mailing of the notice of expansion or contraction 22  
30 and a copy of any objections thereto which have been filed with the 3

1 Unit Operator, together with an application in sufficient number, 1  
2 for approval of such expansion or contraction and with appropriate 2  
3 joinders. 3

4 (d) After due consideration of all pertinent information, 4  
5 the expansion or contraction shall, upon approval by the Supervisor, 5  
6 become effective as of the date prescribed in the notice thereof. 6

7 (e) All legal subdivisions of land (i.e., 40 acres by 7  
8 Government survey or its nearest lot or tract equivalent; in in- 8  
9 stances of irregular surveys unusually large lots or tracts shall 9  
10 be considered in multiples of 40 acres or the nearest aliquot equiva-10  
11 lent thereof), no parts of which are entitled to be in a partici- 11  
12 pating area on or before the fifth anniversary of the effective 12  
13 date of the first initial participating area established under this 13  
14 unit agreement, shall be eliminated automatically from this agree- 14  
15 ment, effective as of said fifth anniversary, and such lands shall 15  
16 no longer be a part of the unit area and shall no longer be subject 16  
17 to this agreement, unless diligent drilling operations are in pro- 17  
18 gress on unitized lands not entitled to participating on said 18  
19 fifth anniversary, in which event all such lands shall remain 19  
20 subject hereto for so long as such drilling operations are continued 20  
21 diligently, with not more than 90 days' time elapsing between the 21  
22 completion of one such well and the commencement of the next such 22  
23 well. All legal subdivisions of lands not entitled to be in a 23  
24 participating area within 10 years after the effective date of the 24  
25 first initial participating area approved under this agreement shall 25  
26 be automatically eliminated from this agreement as of said tenth 26  
27 anniversary. All lands proved productive by diligent drilling 27  
28 operations after the aforesaid 5-year period shall become partici- 28  
29 pating in the same manner as during said 5-year period. However, 29  
30 when such diligent drilling operations cease, all nonparticipating 30



1 lands shall be automatically eliminated effective as of the 91st day 1  
2 thereafter. The unit operator shall within 90 days after the effec- 2  
3 tive date of any elimination hereunder, describe the area so elimi- 3  
4 nated to the satisfaction of the Supervisor and promptly notify all 4  
5 parties in interest. 5

6 If conditions warrant extension of the 10-year period specified 6  
7 in this subsection 2(e), a single extension of not to exceed 2 years 7  
8 may be accomplished by consent of the owners of 90% of the working 8  
9 interests in the current nonparticipating unitized lands and the 9  
10 owners of 60% of the basic royalty interests (exclusive of the basic 10  
11 royalty interests of the United States) in nonparticipating unitized 11  
12 lands with approval of the Director, provided such extension applica-12  
13 tion is submitted to the Director not later than 60 days prior to 13  
14 the expiration of said 10-year period. 14

15 Any expansion of the unit area pursuant to this section which 15  
16 embraces lands theretofore eliminated pursuant to this subsection 2 16  
17 (e) shall not be considered automatic commitment or recommitment of 17  
18 such lands. 18

19 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed 19  
20 to this agreement shall constitute land referred to herein as "uni- 20  
21 tized land" or "land subject to this agreement". All oil and gas in 21  
22 any and all formations of the unitized land are unitized under the 22  
23 terms of this agreement and herein are called "unitized substances." 23

24 4. UNIT OPERATOR. Inexco Oil Company is hereby designated 24  
25 as Unit Operator and by signature hereto as Unit Operator agrees 25  
26 and consents to accept the duties and obligations of Unit Operator 26  
27 for the discovery, development, and production of unitized sub- 27  
28 stances as herein provided. Whenever reference is made herein to 28  
29 to the Unit Operator, such reference means the Unit Operator acting 29  
30 in that capacity and not as an owner of interest in unitized sub- 30

stances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Supervisor, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to

1 removal by the same percentage vote of the owners of working 1  
2 interests as herein provided for the selection of a new Unit 2  
3 Operator. Such removal shall be effective upon notice thereof to 3  
4 the Supervisor. 4

5 The resignation or removal of Unit Operator under this agree- 5  
6 ment shall not terminate its right, title, or interest as the 6  
7 owner of a working interest or other interest in unitized substances 7  
8 but upon the resignation or removal of Unit Operator becoming ef- 8  
9 fective, such Unit Operator shall deliver possession of all wells, 9  
10 equipment, materials, and appurtenances used in conducting the 1  
11 unit operations to the new duly qualified successor Unit Operator 1  
12 or to the common agent, if no such new Unit Operator is elected, 1  
13 to be used for the purpose of conducting unit operations hereunder. 1  
14 Nothing herein shall be construed as authorizing removal of any 1  
15 material, equipment and appurtenances needed for the preservation 1  
16 of any wells. 1

17 6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall 1  
18 tender his or its resignation as Unit Operator or shall be removed 1  
19 as hereinabove provided, or a change of Unit Operator is negotiated 1  
20 by working interest owners, the owners of the working interests in 2  
21 the participating area or areas according to their respective 2  
22 acreage interests in such participating area or areas, or, until a 2  
23 participating area shall have been established, the owners of the 2  
24 working interests according to their respective acreage interests 2  
25 in all unitized land, shall by majority vote select a successor Unit 2  
26 Operator: Provided, That, if a majority but less than 75 per cent 2  
27 of the working interests qualified to vote are owned by one party to 2  
28 this agreement, a concurring vote of one or more additional working 2  
29 interest owners shall be required to select a new Operator. Such 2  
30 selection shall not become effective until 3

1 (a) a Unit Operator so selected shall accept in writing the 1  
2 duties and responsibilities of Unit Operator, and 2

3 (b) the selection shall have been approved by the Supervisor. 3

4 If no successor Unit Operator is selected and qualified as 4  
5 herein provided, the Director at his election may declare this unit 5  
6 agreement terminated. 6

7 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the 7  
8 Unit Operator is not the sole owner of working interests, costs and 8  
9 expenses incurred by Unit Operator in conducting unit operations 9  
10 hereunder shall be paid and apportioned among and borne by the owners 10  
11 of working interests, all in accordance with the agreement or agree- 11  
12 ments entered into by and between the Unit Operator and the owners of 12  
13 working interests, whether one or more, separately or collectively. 13  
14 Any Agreement or agreements entered into between the working interest 14  
15 owners and the Unit Operator as provided in this section, whether one 15  
16 or more, are herein referred to as the "unit operating agreement." 16  
17 Such unit operating agreement shall also provide the manner in which 17  
18 the working interest owners shall be entitled to receive their res- 18  
19 pective proportionate and allocated share of the benefits accruing 19  
20 hereto in conformity with their underlying operating agreements, 20  
21 leases, or other independent contracts, and such other rights and 21  
22 obligations as between Unit Operator and the working interest owners; 22  
23 however, no such unit operating agreement shall be deemed either to 23  
24 modify any of the terms and conditions of this unit agreement or to 24  
25 relieve the Unit Operator of any right or obligation established 25  
26 under this unit agreement, and in case of any inconsistency or con- 26  
27 flict between this unit agreement, and the unit operating agreement, 27  
28 this unit agreement shall govern. Three true copies of any unit 28  
29 operating agreement executed pursuant to this section should be filed 29  
30 with the Supervisor, prior to approval of this unit agreement. 30

1           8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 1  
2 wise specifically provided herein, the exclusive right, privilege, 2  
3 and duty of exercising any and all rights of the parties hereto which3  
4 are necessary or convenient for prospecting for, producing, storing, 4  
5 allocating, and distributing the unitized substances are hereby dele-5  
6 gated to and shall be exercised by the Unit Operator as herein pro- 6  
7 vided. Acceptable evidence of title to said rights shall be deposi- 7  
8 ted with said Unit Operator and, together with this agreement, shall 8  
9 constitute and define the rights, privileges, and obligations of Unit9  
10 Operator. Nothing herein, however, shall be construed to transfer 10  
11 title to any land or to any lease or operating agreement, it being 11  
12 understood that under this agreement the Unit Operator, in its capa- 12  
13 city as Unit Operator, shall exercise the rights of possession and 13  
14 use vested in the parties hereto only for the purposes herein speci- 14  
15 fied. 15

16           9. DRILLING TO DISCOVERY. Within 6 months after the effective 16  
17 date hereof, the Unit Operator shall begin to drill an adequate test 17  
18 well at a location approved by the Supervisor, unless on such effec- 18  
19 tive date a well is being drilled conformably with the terms hereof, 19  
20 and thereafter continue such drilling diligently until the Morrow 20  
21 formation has been tested or until at a lesser depth unitized sub- 21  
22 stances shall be discovered which can be produced in paying quanti- 22  
23 ties (to wit: quantities sufficient to repay the costs of drilling, 23  
24 completing, and producing operations, with a reasonable profit) or 24  
25 the Unit Operator shall at any time establish to the satisfaction of 25  
26 the Supervisor that further drilling of said well would be unwar- 26  
27 ranted or impracticable, provided, however, that Unit Operator shall 27  
28 not in any event be required to drill said well to a depth in excess 28  
29 of 11,000 feet. Until the discovery of a deposit of unitized sub- 29  
30 stances capable of being produced in paying quantities, the Unit 30  
31 Operator shall continue drilling one well at a time, allowing not 31  
32 more than 6 months between the completion of one well and the 32  
33 beginning of the next well, until a well capable of producing 33

1 unitized substances in paying quantities is completed to the 1  
2 satisfaction of said Supervisor or until it is reasonably proved 2  
3 that the unitized land is incapable of producing unitized substances 3  
4 in paying quantities in the formations drilled hereunder. Nothing 4  
5 in this section shall be deemed to limit the right of the Unit 5  
6 Operator to resign as provided in Section 5, hereof, or as requiring 6  
7 Unit Operator to commence or continue any drilling during the period 7  
8 pending such resignation becoming effective in order to comply with 8  
9 the requirements of this section. The Supervisor may modify the 9  
10 the drilling requirements of this section by granting reasonably 10  
11 extensions of time when, in his opinion, such action is warranted. 11

12 Upon failure to commence any well provided for in this section 12  
13 within the time allowed, including any extension of time granted by 13  
14 the Supervisor, this agreement will automatically terminate; upon 14  
15 failure to continue drilling diligently any well commenced here- 15  
16 under, the Supervisor may, after 15-days notice to the Unit 16  
17 Operator, declare this unit agreement terminated. 17

18 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 18  
19 months after completion of a well capable of producing unitized 19  
20 substances in paying quantities, the Unit Operator shall submit for 20  
21 the approval of the Supervisor an acceptable plan of development and 21  
22 operation for the unitized land which, when approved by the Super- 22  
23 visor, shall constitute the further drilling and operating obliga- 23  
24 tions of the Unit Operator under this agreement for the period 24  
25 specified therein. Thereafter, from time to time before the expira- 25  
26 tion of any existing plan, the Unit Operator shall submit for the 26  
27 approval of the Supervisor a plan for an additional specified period 27  
28 for the development and operation of the unitized land. 28

29 Any plan submitted pursuant to this section shall provide for 29  
30 the exploration of the unitized area and for the diligent drilling 30

1 necessary for determination of the area or areas thereof capable 1  
2 of producing unitized substances in paying quantities in each and 2  
3 every productive formation and shall be as complete and adequate as 3  
4 the Supervisor may determine to be necessary for timely development 4  
5 and proper conservation of the oil and gas resources of the unitized 5  
6 area and shall: 6

7 (a) specify the number and locations of any wells to be 7  
8 drilled and the proposed order and time for such drilling; and 8

9 (b) to the extent practicable specify the operating practices 9  
10 regarded as necessary and advisable for proper conservation of 10  
11 natural resources. 11

12 Separate plans may be submitted for separate productive zones, 12  
13 subject to the approval of the Supervisor. 13

14 Plans shall be modified or supplemented when necessary to meet 14  
15 changed conditions or to protect the interests of all parties to 15  
16 this agreement. Reasonable diligence shall be exercised in com- 16  
17 plying with the obligations of the approved plan of development. 17

18 The Supervisor is authorized to grant a reasonable extension of the 18  
19 6-month period herein prescribed for submission of an initial plan 19  
20 of development where such action is justified because of unusual 20  
21 conditions or circumstances. After completion hereunder of a well 21  
22 capable of producing any unitized substance in paying quantities, 22  
23 no further wells, except such as may be necessary to afford protec- 23  
24 tion against operations not under this agreement and such as may be 24  
25 specifically approved by the Supervisor, shall be drilled except in 25  
26 accordance with a plan of development approved as herein provided. 26

27 11. PARTICIPATING AFTER DISCOVERY. Upon completion of a well 27  
28 capable of producing unitized substances in paying quantities or 28  
29 as soon thereafter as required by the Supervisor, the Unit Operator 29  
30 shall submit for approval by the Supervisor a schedule, based on 30

1 subdivision of the public-land survey or aliquot parts thereof, 1  
2 of all land then regarded as reasonably proved to be productive in 2  
3 paying quantities; all lands in said schedule on approval of the 3  
4 Supervisor to constitute a participating area, effective as of the 4  
5 date of completion of such well or the effective date of this unit 5  
6 agreement, whichever is later. The acreages of both Federal and 6  
7 non-Federal lands shall be based upon appropriate computations from 7  
8 the courses and distances shown on the last approved public-land 8  
9 survey as of the effective date of each initial participating area. 9  
10 Said schedule shall also set forth the percentage of unitized sub- 10  
11 stances to be allocated as herein provided to each tract in the 11  
12 participating area so established, and shall govern the allocation 12  
13 of production commencing with the effective date of the participa- 13  
14 ting area. A separate participating area shall be established for 14  
15 each separate pool or deposit of unitized substances or for any 15  
16 group thereof which is produced as a single pool or zone, and any 16  
17 two or more participating areas so established may be combined into 17  
18 one, on approval of the Supervisor. When production from two or 18  
19 more participating areas, so established, is subsequently found to 19  
20 be from a common pool or deposit said participating areas shall be 20  
21 combined into one effective as of such appropriate date as may be 21  
22 approved or prescribed by the Supervisor. The participating area 22  
23 or areas so established shall be revised from time to time, subject 23  
24 to like approval, to include additional land then regarded as 24  
25 reasonably proved to be productive in paying quantities or necessary 25  
26 for unit operations, or to exclude land then regarded as reasonably 26  
27 proved not to be productive in paying quantities and the schedule 27  
28 of allocation percentages shall be revised accordingly. The effec- 28  
29 tive date of any revision shall be the first of the month in which 29  
30 is obtained the knowledge or information on which such revision is 30



1 predicated, provided, however, that a more appropriate effective 1  
2 date may be used if justified by the Unit Operator and approved by 2  
3 the Supervisor. No land shall be excluded from a participating 3  
4 area on account of depletion of the unitized substances, except that 4  
5 any participating area established under the provisions of this 5  
6 unit agreement shall terminate automatically whenever all comple- 6  
7 tions in the formation on which the participating area is based are 7  
8 abandoned. 8

9 It is the intent of this section that a participating area 9  
10 shall represent the area known or reasonably estimated to be pro- 10  
11 ductive in paying quantities; but, regardless of any revision of 11  
12 the participating area, nothing herein contained shall be construed 12  
13 as requiring any retroactive adjustment for production obtained 13  
14 prior to the effective date of the revision of the participating 14  
15 area. 15

16 In the absence of agreement at any time between the Unit 16  
17 Operator and the Supervisor as to the proper definition or redefini- 17  
18 tion of a participating area, or until a participating area has, or 18  
19 areas have, been established as provided herein, the portion of all 19  
20 payments affected thereby shall be impounded in a manner mutually 20  
21 acceptable to the owners of working interests and the Supervisor. 21  
22 Royalties due the United States shall be determined by the Super- 22  
23 visor and the amount thereof shall be deposited, as directed by 23  
24 the Supervisor, to be held as unearned money until a participating 24  
25 area is finally approved and then applied as earned or returned in 25  
26 accordance with a determination of the sum due as Federal royalty 26  
27 on the basis of such approved participating area. 27

28 Whenever it is determined, subject to the approval of the 28  
29 Supervisor, that a well drilled under this agreement is not capable 29  
30 of production in paying quantities and inclusion of the land on 30

1 participating area, the first gas withdrawn from such last-mentioned  
2 participating area for sale during the life of this agreement shall  
3 be considered to be the gas so transferred until an amount equal to  
4 that transferred shall be so produced for sale and such gas shall be  
5 allocated to the participating area from which initially produced as  
6 such area was last defined at the time of such final production.

7 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR  
8 FORMATIONS. Any party hereto owning or controlling the working  
9 interest in any unitized land having thereon a regular well loca-  
10 tion may with the approval of the Supervisor, at such party's sole  
11 risk, costs, and expense, drill a well to test any formation for  
12 which a participating area has not been established or to test any  
13 formation for which a participating area has been established if  
14 such location is not within said participating area, unless within  
15 90 days of receipt of notice from said party of his intention to  
16 drill the well the Unit Operator elects and commences to drill such  
17 a well in like manner as other wells are drilled by the Unit  
18 Operator under this agreement.

19 If any well drilled as aforesaid by a working interest owner  
20 results in production such that the land upon which it is situated  
21 may properly be included in a participating area, such participating  
22 area shall be established or enlarged as provided in this agreement  
23 and the well shall thereafter be operated by the Unit Operator in  
24 accordance with the terms of this agreement and the unit operating  
25 agreement.

26 If any well drilled as aforesaid by a working interest owner  
27 obtains production in quantities insufficient to justify the inclu-  
28 sion of the land upon which such well is situated in a participating  
29 area, such well may be operated and produced by the party drilling  
30 the same subject to the conservation requirements of this agreement.

1 The royalties in amount or value of production from any such well 1  
2 shall be paid as specified in the underlying lease and agreements 2  
3 affected. 3

4 14. ROYALTY SETTLEMENT. The United States and any State and 4  
5 any royalty owner who, is entitled to take in kind a share of the 5  
6 substances now unitized hereunder shall hereafter be entitled to the 6  
7 right to take in kind its share of the unitized substances, and Unit 7  
8 Operator, or the working interest owner in case of the operation of 8  
9 a well by a working interest owner as herein provided for in special 9  
10 cases, shall make deliveries of such royalty share taken in kind 10  
11 in conformity with the applicable contracts, laws and regulations. 11  
12 Settlement for royalty interest not taken in kind shall be made by 12  
13 working interest owners responsible therefor under existing con- 13  
14 tracts, laws and regulations, or by the Unit Operator on or before 14  
15 the last day of each month for unitized substances produced during 15  
16 the preceding calendar month; provided, however, that nothing 16  
17 herein contained shall operate to relieve the lessees of any land 17  
18 from their respective lease obligations for the payment of any 18  
19 royalties due under their leases. 19

20 If gas obtained from lands not subject to this agreement is 20  
21 introduced into any participating area hereunder, for use in repres- 21  
22 suring, stimulation of production, or increasing ultimate recovery, 22  
23 in conformity with a plan of operations approved by the Supervisor, 23  
24 a like amount of gas, after settlement as herein provided for any 24  
25 gas transferred from any other participating area and with appro- 25  
26 priate deduction for loss from any cause, may be withdrawn from the 26  
27 formation into which the gas is introduced, royalty free as to dry 27  
28 gas, but not as to any products which may be extracted therefrom; 28  
29 provided that such withdrawal shall be at such time as may be pro- 29  
30 vided in the approved plan of operations or as may otherwise be 30

1 consented to by the Supervisor as conforming to good petroleum 1  
2 engineering practice; and provided further, that such right of 2  
3 withdrawal shall terminate on the termination of this unit agree- 3  
4 ment. 4

5 Royalty due the United States shall be computed as provided in 5  
6 the operating regulations and paid in value or delivered in kind as 6  
7 to all unitized substances on the basis of the amounts thereof al- 7  
8 located to unitized Federal land as provided herein at the rates 8  
9 specified in the respective Federal leases, or at such lower rate 9  
10 or rates as may be authorized by law or regulation; provided, that 10  
11 for leases on which the royalty rate depends on the daily average 11  
12 production per well, said average production shall be determined 12  
13 in accordance with the operating regulations as though each parti- 13  
14 cipating area were a single consolidated lease. 14

15 15. RENTAL SETTLEMENT. Rental or minimum royalties due on 15  
16 leases committed hereto shall be paid by working interest owners 16  
17 responsible therefor under existing contracts, laws and regulations, 17  
18 provided that nothing herein contained shall operate to relieve the 18  
19 lessees of any land from their respective lease obligations for the 19  
20 payment of any rental or minimum royalty due under their leases. 20  
21 Rental or minimum royalty for lands of the United States subject to 21  
22 this agreement shall be paid at the rate specified in the respective 22  
23 leases from the United States unless such rental or minimum royalty 23  
24 is waived, suspended, or reduced by law or by approval of the Secre- 24  
25 tary or his duly authorized representative. 25

26 With respect to any lease on non-Federal land containing pro- 26  
27 visions which would terminate such lease unless drilling operations 27  
28 are commenced upon the land covered thereby within the time therein 28  
29 specified or rentals are paid for the privilege of deferring such 29  
30 drilling operations, the rentals required thereby shall, notwith- 30

1 standing any other provision of this agreement, be deemed to accrue 1  
2 and become payable during the term thereof as extended by this 2  
3 agreement and until the required drilling operations are commenced 3  
4 upon the land covered thereby or until some portion of such land 4  
5 is included within a participating area. 5

6 16. CONSERVATION. Operations hereunder and production of 6  
7 unitized substances shall be conducted to provide for the most eco- 7  
8 nomical and efficient recovery of said substances without waste, 8  
9 as defined by or pursuant to State or Federal law or regulation. 9

10 17. DRAINAGE. The Unit Operator shall take such measures 10  
11 as the Supervisor deems appropriate and adequate to prevent drainage 11  
12 of unitized substances from unitized land by wells on land not 12  
13 subject to this agreement. 13

14 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, 14  
15 conditions, and provisions of all leases, subleases, and other con- 15  
16 tracts relating to exploration, drilling, development, or operations 16  
17 for oil or gas on lands committed to this agreement are hereby ex- 17  
18 pressly modified and amended to the extent necessary to make the 18  
19 same conform to the provisions hereof, but otherwise to remain in 19  
20 full force and effect; and the parties hereto hereby consent that 20  
21 the Secretary shall and by his approval hereof, or by the approval 21  
22 hereof by his duly authorized representative, does hereby establish, 22  
23 alter, change, or revoke the drilling, producing, rental, minimum 23  
24 royalty, and royalty requirements of Federal leases committed hereto 24  
25 and the regulations in respect thereto to conform said requirements 25  
26 to the provisions of this agreement, and, without limiting the 26  
27 generality of the foregoing, all leases, subleases, and contracts 27  
28 are particularly modified in accordance with the following: 28

29 (a) The development and operation of lands subject to this 29  
30 agreement under the terms hereof shall be deemed full perfor- 30

1 mance of all obligations for development and operation with 1  
2 respect to each and every separately owned tract subject to 2  
3 this agreement, regardless of whether there is any development 3  
4 of any particular tract of the unit area. 4

5 (b) Drilling and producing operations performed hereunder upon 5  
6 any tract of unitized lands will be accepted and deemed to be 6  
7 performed upon and for the benefit of each and every tract of 7  
8 unitized land, and no lease shall be deemed to expire by reason 8  
9 of failure to drill or produce wells situated on the land 9  
10 therein embraced. 10

11 (c) Suspension of drilling or producing operations on all 11  
12 unitized lands pursuant to direction or consent of the Secre- 12  
13 tary or his duly authorized representative shall be deemed to 13  
14 constitute such suspension pursuant to such direction or con- 14  
15 sent as to each and every tract of unitized land. A suspension 15  
16 of drilling or producing operations limited to specified lands 16  
17 shall be applicable only to such lands. 17

18 (d) Each lease, sublease or contract relating to the explora- 18  
19 tion, drilling, development or operation for oil or gas of 19  
20 lands other than those of the United States committed to this 20  
21 agreement, which, by its terms might expire prior to the termi- 21  
22 nation of this agreement, is hereby extended beyond any such 22  
23 terms so provided therein so that it shall be continued in 23  
24 full force and effect for and during the term of this agree- 24  
25 ment. 25

26 (e) Any Federal lease for a fixed term of twenty (20) years 26  
27 or any renewal thereof or any part of such lease which is made 27  
28 subject to this agreement shall continue in force beyond the 28  
29 term provided therein until the termination hereof. Any other 29  
30 Federal lease committed hereto shall continue in force beyond 30

1 the term so provided therein or by law as to the land com-  
2 mitted so long as such lease remains subject hereto, provided  
3 that production is had in paying quantities under this unit  
4 agreement prior to the expiration date of the term of such  
5 lease, or in the event actual drilling operations are com-  
6 menced on unitized land, in accordance with the provisions  
7 of this agreement, prior to the end of the primary term of such  
8 lease and are being diligently prosecuted at that time, such  
9 lease shall be extended for two years and so long thereafter  
10 as oil or gas is produced in paying quantities in accordance  
11 with the provisions of the Mineral Leasing Act Revision of 1960.

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

21 (g) The segregation of any Federal lease committed to this  
22 agreement is governed by the following provision in the fourth para-  
23 graph of Sec. 17(j) of the Mineral Leasing Act, as amended by  
24 Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal)  
25 lease heretofore or hereafter committed to any such (unit)  
26 plan embracing lands that are in part within and in part out-  
27 side of the area covered by any such plan shall be segregated  
28 into separate leases as to the lands committed and the lands  
29 not committed as of the effective date of unitization:  
30 Provided, however, That any such lease as to the nonunitized

1 portion shall continue in force and effect for the term 1  
2 thereof but for not less than two years from the date of such 2  
3 segregation and so long thereafter as oil or gas is produced 3  
4 in paying quantities." 4

5 (h) Any lease, other than a Federal lease, having only a 5  
6 portion of its lands committed hereto shall be segregated as 6  
7 to the portion committed and the portion not committed, and 7  
8 the provisions of such lease shall apply separately to such 8  
9 segregated portions commencing as of the effective date hereof. 9

10 In the event any such lease provides for a lump-sum rental 10  
11 payment, such payment shall be prorated between the portions 11  
12 so segregated in proportion to the acreage of the respective 12  
13 tracts. 13

14 19. COVENANTS RUN WITH LAND. The covenants herein shall be 14  
15 construed to be covenants running with the land with respect to the 15  
16 interest of the parties hereto and their successors in interest 16  
17 until this agreement terminates, and any grant, transfer or con- 17  
18 veyance, of interest in land or leases subject hereto shall be and 18  
19 hereby is conditioned upon the assumption of all privileges and 19  
20 obligations hereunder by the grantee, transferee, or other succes- 20  
21 sor in interest. No assignment or transfer of any working interest, 21  
22 royalty, or other interest subject hereto shall be binding upon 22  
23 Unit Operator until the first day of the calendar month after Unit 23  
24 Operator is furnished with the original, photostatic, or certified 24  
25 copy of the instrument of transfer. 25

26 20. EFFECTIVE DATE AND TERM. This agreement shall become 26  
27 effective upon approval by the Secretary or his duly authorized 27  
28 representative and shall terminate five (5) years from said effec- 28  
29 tive date unless 29

30 (a) such date of expiration is extended by the Director, or 30



1 (b) it is reasonably determined prior to the expiration of 1  
2 the fixed term of any extension thereof that the unitized land 2  
3 is incapable of production of unitized substances in paying 3  
4 quantities in the formations tested hereunder and after notice 4  
5 of intention to terminate the agreement on such ground is given 5  
6 by the Unit Operator to all parties in interest at their last 6  
7 known addresses, the agreement is terminated with the approval 7  
8 of the Supervisor, or 8

9 (c) a valuable discovery of unitized substances has been made 9  
10 accepted on unitized land during said initial term of any ex- 10  
11 tension thereof, in which event the agreement shall remain in 11  
12 effect for such term and so long as unitized substances can be 12  
13 produced in quantities sufficient to pay for the cost of pro- 13  
14 ducing same from wells on unitized land within any participa- 14  
15 ting area established hereunder and, should production cease, 15  
16 so long thereafter as diligent operations are in progress for 16  
17 the restoration of production or discovery of new production 17  
18 and so long thereafter as unitized substances so discovered can 18  
19 be produced as aforesaid, or 19

20 (d) it is terminated as heretofore provided in this agreement. 20

21 This agreement may be terminated at any time by not less than 75 21  
22 per centum, on an acreage basis, of the working interest owners 22  
23 signatory hereto, with the approval of the Supervisor; notice of any 23  
24 such approval to be given by the Unit Operator to all parties hereto. 24

25 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The 25  
26 Director is hereby vested with authority to alter or modify from 26  
27 time to time in his discretion the quantity and rate of production 27  
28 under this agreement when such quantity and rate is not fixed 28  
29 pursuant to Federal or State law or does not conform to any state- 29  
30 wide voluntary conservation or allocation program, which is esta- 30

1 blished, recognized, and generally adhered to by the majority of 1  
2 operators in such State, such authority being hereby limited to 2  
3 alteration or modification in the public interest, the purpose 3  
4 thereof and the public interest to be served thereby to be stated 4  
5 in the order of alteration or modification. Without regard to the 5  
6 foregoing, the Director is also hereby vested with authority to 6  
7 alter or modify from time to time in his discretion the rate of 7  
8 prospecting and development and the quantity and rate of production 8  
9 under this agreement when such alteration or modification is in the 9  
10 interest of attaining the conservation objectives stated in this 10  
11 agreement and is not in violation of any applicable Federal or 11  
12 State law. 12

13 Powers in this section vested in the Director shall only be 13  
14 exercised after notice to Unit Operator and opportunity for hearing 14  
15 to be held not less than 15 days from notice. 15

16 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor 16  
17 the working interest owners nor any of them shall be subject to 17  
18 any forfeiture, termination or expiration of any rights hereunder 18  
19 of under any lease or contracts subject hereto, or to any penalsy 19  
20 or liability on account of delay or failure in whole or in part 20  
21 to comply with any applicable provision thereof to the extent that 21  
22 the Unit Operator, working interest owners or any of them are hin- 22  
23 dered, delayed or prevented from complying therewith by reason of 23  
24 failure of the Unit Operator to obtain in the exercise of due 24  
25 diligence, the concurrence of proper representatives of the United 25  
26 States and proper representatives of the State of New Mexcio in 26  
27 and about any matters or things concerning which it is required here-27  
28 in that such concurrence be obtained. The parties hereto, including 28  
29 the Commission, agree that all power and authority vested in the 29  
30 Commission in and by any provisions of this agreement are vested 30

1 in the Commission and shall be exercised by it pursuant to the 1  
2 provisions of the laws of the State of New Mexico pursuant to the 2  
3 laws of the State of New Mexico and subject in any case to appeal 3  
4 or judicial review as may now or hereafter be provided by the laws 4  
5 of the State of New Mexico. 5

6 23. APPEARANCES. Unit Operator shall, after notice to other 6  
7 parties affected, have the right to appear for and on behalf of any 7  
8 and all interests affected hereby before the Department of the 8  
9 Interior and to appeal from orders issued under the regulations 9  
10 of said Department or to apply for relief from any of said regula- 10  
11 tions or in any proceedings relative to operations before the 11  
12 Department of the Interior or any other legally constituted autho- 12  
13 rity; provided, however, that any other interested party shall also 13  
14 have the right at his own expense to be heard in any such pro- 14  
15 ceeding. 15

16 24. NOTICES. All notices, demands or statements required 16  
17 hereunder to be given or rendered to the parties hereto shall be 17  
18 deemed fully given if given in writing and personally delivered 18  
19 to the party or sent by postpaid registered or certified mail, 19  
20 addressed to such party or parties at their respective addresses 20  
21 set forth in connection with the signatures hereto or to the rati- 21  
22 fication or consent hereof or to such other address or any such 22  
23 party may have furnished in writing to party sending the notice, 23  
24 demand or statement. 24

25 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement 25  
26 contained shall be construed as a waiver by any party hereto of the 26  
27 right to assert any legal or constitutional right or defense as to 27  
28 the validity or invalidity of any law of the State wherein said 28  
29 unitized lands are located, or of the United States, or regulations 29  
30 issued thereunder in any way affecting such party, or as a waiver 30

1 by any such party of any right beyond his or its authority to waive. 1

2 26. UNAVOIDABLE DELAY. All obligations under this agreement 2  
3 requiring the Unit Operator to commence or continue drilling or to 3  
4 operate on or produce unitized substances from any of the lands 4  
5 covered by this agreement shall be suspended while the Unit 5  
6 Operator, despite the exercise of due care and diligence, is pre- 6  
7 vented from complying with such obligations, in whole or in part, 7  
8 by strikes, acts of God, Federal, State, or municipal law or agen- 8  
9 cies, unavoidable accidents, uncontrollable delays in transportation, 9  
10 inability to obtain necessary materials in open market, or other 10  
11 matters beyond the reasonable control of the Unit Operator whether 11  
12 similar to matters herein enumerated or not. No unit obligation 12  
13 which is suspended under this section shall become due less than 13  
14 thirty (30) days after it has been determined that the suspension is 14  
15 is no longer applicable. Determination of creditable "Unavoidable 15  
16 Delay" time shall be made by the unit operator subject to approval 16  
17 of the Supervisor. 17

18 27. NONDISCRIMINATION. In connection with the performance of 18  
19 work under this agreement, the Operator agrees to comply with all 19  
20 the provisions of Section 202 (1) to (7) inclusive of Executive 20  
21 Order 11246 (30 F.R. 12319), which are hereby incorporated by 21  
22 reference in this agreement. 22

23 28. LOSS OF TITLE. In the event title to any tract of 23  
24 unitized land shall fail and the true owner cannot be induced to 24  
25 join in this unit agreement, such tract shall be automatically re- 25  
26 garded as not committed hereto and there shall be such readjustment 26  
27 of future costs and benefits as may be required on account of the 27  
28 loss of such title. In the event of a dispute as to title as to 28  
29 any royalty, working interest, or other interests subject thereto, 29  
30 payment or delivery on account thereof may be withheld without 30

1 liability for interest until the dispute is finally settled; pro- 1  
2 vided, that, as to Federal land or leases, no payments of funds due 2  
3 the United States should be withheld, but such funds shall be 3  
4 deposited as directed by the Supervisor to be held as unearned 4  
5 money pending final settlement of the title dispute, and then 5  
6 applied as earned or returned in accordance with such final settle- 6  
7 ment. 7

8 Unit Operator as such is relieved from any responsibility for 8  
9 any defect or failure of any title hereunder. 9

10 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any 10  
11 substantial interest in a tract within the unit area fails or refuses 11  
12 to subscribe or consent to this agreement, the owner of the working 12  
13 interest in that tract may withdraw said tract from this agreement 13  
14 by written notice delivered to the Supervisor and the Unit 14  
15 Operator prior to the approval of this agreement by the Supervisor. 15  
16 Any oil or gas interests in lands within the unit area not committed 16  
17 hereto prior to submission of this agreement for final approval 17  
18 may thereafter be committed hereto by the owner or owners thereof 18  
19 subscribing or consenting to this agreement, and, if the interest 19  
20 is a working interest, by the owner of such interest also sub- 20  
21 scribing to the unit operating agreement. After operations are 21  
22 commenced hereunder, the right of subsequent joinder, as provided 22  
23 in this section, by a working interest owner is subject to such 23  
24 requirements or approvals, if any, pertaining to such joinder, as 24  
25 may be provided for in the unit operating agreement. After final 25  
26 approval hereof, joinder by a non-working interest owner must be 26  
27 consented to in writing by the working interest owner committed 27  
28 hereto and responsible for the payment of any benefits that may 28  
29 accrue hereunder in behalf of such non-working interest. A non- 29  
30 working interest may not be committed to this unit agreement unless 30

1 the corresponding working interest is committed hereto. Joinder 1  
2 to the unit agreement by a working interest owner, at any time, 2  
3 must be accompanied by appropriate joinder to the unit operating 3  
4 agreement, if more than one committed working interest owner is 4  
5 involved, in order for the interest to be regarded as committed to 5  
6 this unit agreement. Except as may otherwise herein be provided, 6  
7 subsequent joinders to this agreement shall be effective as of the 7  
8 first day of the month following the filing with the Supervisor of 8  
9 duly executed counterparts of all or any papers necessary to esta- 9  
10 blish effective commitment of any tract to this agreement unless 10  
11 objection to such joinder is duly made within 60 days by the 11  
12 Supervisor. 12

13 30. COUNTERPARTS. This agreement may be executed in any 13  
14 number of counterparts no one of which needs to be executed by all 14  
15 parties or may be ratified or consented to by separate instrument 15  
16 in writing specifically referring hereto and shall be binding upon 16  
17 all those parties who have executed such a counterpart, ratification 17  
18 or consent hereto with the same force and effect as if all such 18  
19 parties had signed the same document and regardless of whether or not 19  
20 it is executed by all other parties owning or claiming an interest in 20  
21 the lands within the above-described unit area. 21

22 31. NO PARTNERSHIP. It is expressly agreed that the rela- 22  
23 tion of the parties hereto is that of independent contractors and 23  
24 nothing in this agreement contained, expressed or implied, nor any 24  
25 operations conducted hereunder, shall create or be deemed to have 25  
26 created a partnership or association between the parties hereto or 26  
27 any of them. 27

28 IN WITNESS WHEREOF, the parties hereto have caused this agree- 28  
29 ment to be executed and have set opposite their respective names the 29  
30 date of execution. 30

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

INEXCO OIL COMPANY





Assistant Secretary

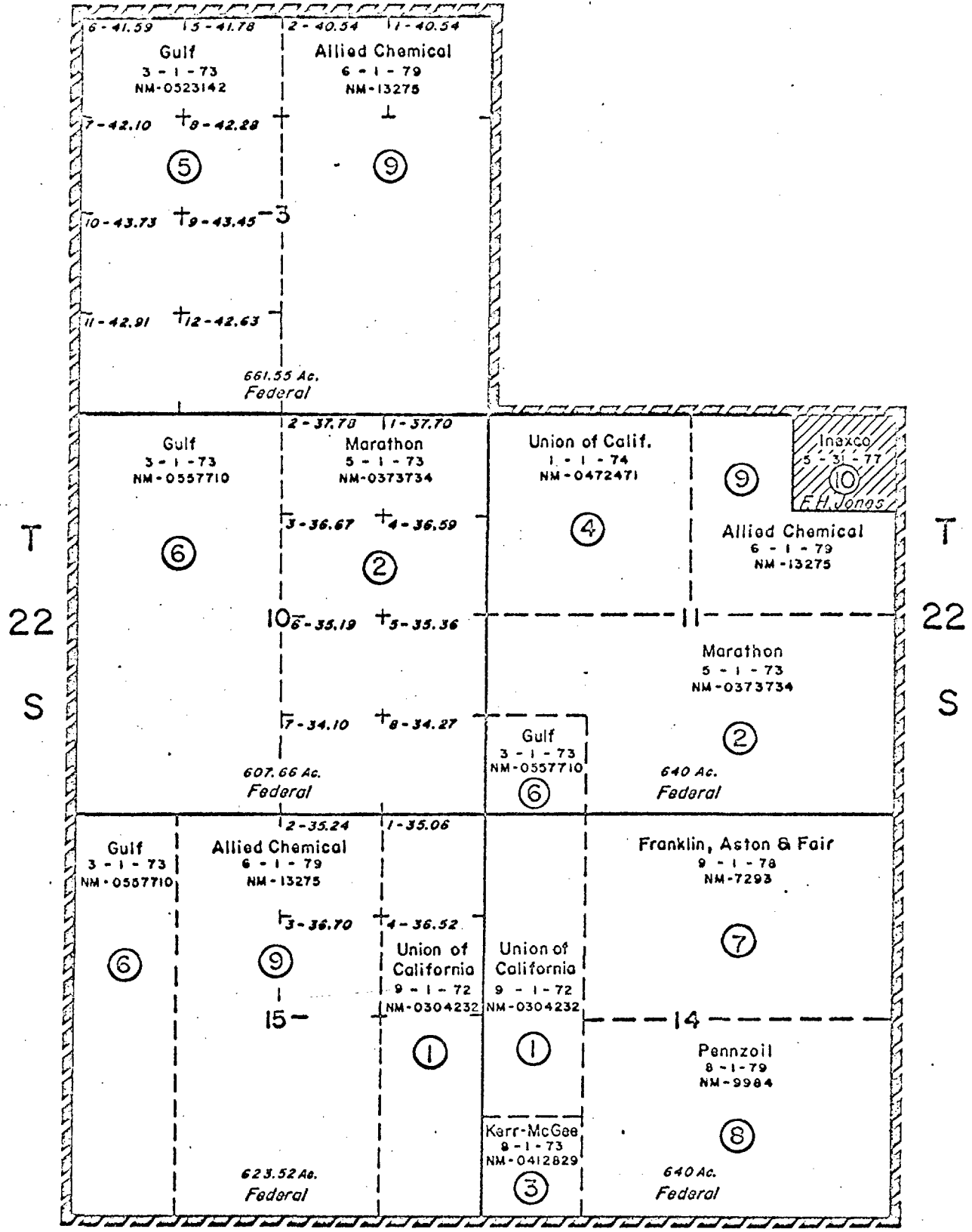
Vice President

Date


Address




R - 25 - E



② TRACT NUMBER

 UNIT OUTLINE CONTAINING 3,172.73 ACRES

 FEDERAL LANDS - 3,132.73 ACRES  
98.7392 % OF UNIT

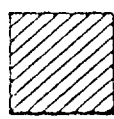
 PATENTED (FEE) LANDS - 40 ACRES  
1.2608 % OF UNIT

EXHIBIT "A"  
**FOUR FORKS UNIT**  
EDDY COUNTY, NEW MEXICO  
SCALE: 1" = 2000'

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES  
FOUR FORKS UNIT AGREEMENT  
Eddy County, New Mexico

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
1.	T-22-S, R-25-E Sec. 14: W/2 NW/4, NW/4 SW/4 Sec. 15: Lots 1 & 4, E/2 SE/4	271.58	NM 0304232 8/31/72	U.S.A. All	FEDERAL LANDS Union Oil Company of California	All	Norris Oil Co. 5.00%	Union Oil Company of California All
2.	T-22-S, R-25-E Sec. 10: Lots 1,2,3, 4,5,6,7,8 Sec. 11: N/2 SW/4, SE/4 SW/4, SE/4	567.66	NM 0373734 4/30/73	U.S.A. All	Marathon Oil Co.	All	John Van Dall 2.50% Wm. Van Dall 1.25% Don Van Dall 1.25%	Marathon Oil Co. All
3.	T-22-S, R-25-E Sec. 14: SW/4 SW/4	40.00	NM 0412829 7/31/73	U.S.A. All	Inexco Oil Co.	All	None	Kerr-McGee Corp. All
4.	T-22-S, R-25-E Sec. 11: NW/4	160.00	NM 0472471 12/31/73	U.S.A. All	Union Oil Company of California	All	Robert B. Gaffga 3.00%	Union Oil Company of California. All
5.	T-22-S, R-25-E Sec. 3: Lots 5,6,7, 8,9,10,11,12	340.47	NM 0523142 2/28/73	U.S.A. All	Gulf Oil Corp.	All	Thomas Allen 5.00%	Gulf Oil Corp. All
6.	T-22-S, R-25-E Sec. 10: W/2 Sec. 11: SW/4 SW/4 Sec. 15: W/2 W/2	520.00	NM 0557710 2/28/73	U.S.A. All	Gulf Oil Corp.	All	Claire Mask \$750/ac. out of 5.00%	Gulf Oil Corp. All
7.	T-22-S, R-25-E Sec. 14: NE/4, E/2 NW/4	240.00	NM 7293 8/31/78	U.S.A. All	Franklin, Aston & Fair, Inc.	All	A. Lansdale 5.00%	Franklin, Aston & Fair, All Inc.



8.	T-22-S, R-25-E Sec. 14: SE/4, E/2 SW/4	240.00	NM 9984 7/31/79	U.S.A. All	Pennzoil Company	All	Clyde Barr Thomas Allen	1.00% 4.00%	Pennzoil Company	All
9.	T-22-S, R-25-E Sec. 3: Lots 1 & 2 S/2 NE/4, SE/4 Sec. 11: W/2 NE/4, SE/4 NE/4 Sec. 15: Lots 2 & 3, W/2 SE/4, E/2 W/2	753.02	NM 13275 5/31/79	U.S.A. All	Allied Chemical Corp.	All	Rio Vista Oil, Inc. Paul Keeler	3.333% 1.666%	Allied Chemical Corp.	All
<u>3,132.73 Acres Federal Lands</u>										

PATENTED (FEE) LANDS

10.	T-22-S, R-25-E Sec. 11: NE/4 NE/4	40.00	Fee	Wayne W. Inexco Oil Co.	All	None	Inexco Oil Co.	All		
Jones; Frank H. Jones; Sam D. Jones; Douglas C. Jones; Maxine J. Webster; Gladys J. Shattuck; Gladys J. Shattuck A/F for Maggie C. Jones 12.5										
<u>40.00 Acres Fee Lands</u>										

RECAPITULATION

3,132.73 acres Federal Lands	98.7392% of Unit Area
40.00 acres Fee Lands	1.2608% of Unit Area
<u>3,172.73 acres</u>	<u>100.0000% of Unit Area</u>

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES  
FOUR FORKS UNIT AGREEMENT  
Eddy County, New Mexico

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
1.	T-22-S, R-25-E	271.58	NM 0304232	U.S.A.	<u>FEDERAL LANDS</u> Union Oil Company of California	All	Norris Oil Co. 5.00%	Union Oil Company of California All
	Sec. 14: W/2 NW/4, NW/4 SW/4		9/1/72	12.5				
2.	Sec. 15: Lots 1 & 4, E/2 SE/4							
	T-22-S, R-25-E	567.66	NM 0373734	U.S.A.	Marathon Oil Co.	All	John Van Dail 2.50% Wm. Van Dail 1.25% Don Van Dail 1.25%	Marathon Oil Co. All
3.	Sec. 10: Lots 1,2,3,4,5,6,7,8		5/1/73	12.5				
	Sec. 11: N/2 SW/4, SE/4 SW/4, SE/4							
4.	T-22-S, R-25-E	40.00	NM 0412829	U.S.A.	Inexco Oil Co.	All	None	Kerr-McGee Corp. All
	Sec. 14: SW/4 SW/4		8/1/73	12.5				
5.	T-22-S, R-25-E	160.00	NM 0472471	U.S.A.	Union Oil Company of California	All	Robert B. Coffga 3.00%	Union Oil Company of California All
	Sec. 11: NW/4		1/1/74	12.5				
6.	T-22-S, R-25-E	340.47	NM 0523142	U.S.A.	Gulf Oil Corp.	All	Thomas Allen 5.00%	Gulf Oil Corp. All
	Sec. 3: Lots 5,6,7,8,9,10,11,12		8/1/73	12.5				
7.	T-22-S, R-25-E	520.00	NM 0557710	U.S.A.	Gulf Oil Corp.	All	Claire Mask \$750/ac. out of 5.00%	Gulf Oil Corp. All
	Sec. 10: W/2		3/1/73	12.5				
	Sec. 11: SW/4 SW/4							
8.	Sec. 15: W/2 W/2							
	T-22-S, R-25-E	240.00	NM 7293	U.S.A.	Franklin, Aston & Fair, Inc.	All	A. Lansdale 5.00%	Franklin, Aston & Fair, Inc. All
9.	Sec. 14: NE/4, E/2 NW/4		9/1/78	12.5				

8.	T-22-S, R-25-E Sec. 14: SE/4, E/2 SW/4	240.00	NM 9984 8/1/79	U.S.A. 12.5	Pennzoil United, Inc.	All	Clyde Carr Thomas Allen	1.00% 4.00%	Pennzoil United, Inc. A
9.	T-22-S, R-25-E Sec. 3: Lots 1 & 2 S/2 NE/4, SE/4 Sec. 11: W/2 NE/4, SE/4 NE/4 Sec. 15: Lots 2 & 3, W/2 SE/4, E/2 W/2	753.02	NM 13275 6/1/79	U.S.A. 12.5	Allied Chemical Corp.	All	Rio Vista Oil, Inc. Paul Keeler	3.333% 1.666%	Allied Chemical Corp. A
		<u>3,132.73</u>			<u>Acres Federal Lands</u>				

PATENTED (FEE) LANDS

10.	T-22-S, R-25-E Sec. 11: NE/4 NE/4	40.00	Fee	Wayne W. Inexco Oil Co. Jones; Frank H. Jones; Sam D. Jones; Douglas C. Jones; Maxine J. Webster; Gladys J. Shattuck; Gladys J. Shattuck A/F for Maggie C. Jones	All	None	Inexco Oil Co. A		
		<u>40.00</u>			<u>Acres Fee Lands</u>				

RECAPITULATION

3,132.73 acres Federal Lands	98.7392% of Unit Area
<u>40.00</u> acres Fee Lands	<u>1.2608%</u> of Unit Area
<u>3,172.73</u> acres	<u>100.0000%</u> of Unit Area

*Unit Agreement*

CONSENT AND RATIFICATION  
FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 23<sup>rd</sup> day of October, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

DATE: 8-15-72

GULF OIL CORPORATION Form Approved Law Dept. 60

ADDRESS: P. O. Box 1150  
Midland, TX 79701

BY: W B Hopkins MIDLAND G. ACCTG. UN. JEL  
Attorney in Fact

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

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

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF TEXAS )  
COUNTY OF MIDLAND ) ss.

The foregoing instrument was acknowledged before me this 15 day of August, 1972 by W B Hopkins, Attorney in Fact of Gulf Oil Corporation, a Corporation, on behalf of said Corporation, Pennsylvania

My Commission Expires: 6-1-73 Emily Jones Notary Public

CONSENT AND RATIFICATION  
 FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
 EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 10th day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

DATE: August 2, 1973  
 ADDRESS: P. O. Box 2120  
Houston, Texas 77001

Allied Chemical Corporation  
 By [Signature]  
 Roger W. Stoneburner, Attorney-in-Fact  
 For Power of Attorney see Serial No.  
 NM-0558400 which authority is still in  
 effect.

STATE OF \_\_\_\_\_ )  
 COUNTY OF \_\_\_\_\_ ) ss.

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

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF TEXAS )  
 COUNTY OF HARRIS ) ss.

The foregoing instrument was acknowledged before me this 17th day of August, 1972 by Roger W. Stoneburner, Attorney-in-Fact of Allied Chemical Corporation, a Corporation, on behalf of said Corporation  
New York

[Signature]  
 Notary Public

My Commission Expires: June 1, 1975

CONSENT AND RATIFICATION  
FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 28th day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

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

FRANKLIN, ASTON & FAIR, INC. \_\_\_\_\_

By: Tom P. Stephens  
Secretary

By: Tom P. Stephens  
Executive Vice-President

DATE: August 9, 1972

P. O. Box 1090  
Roswell, New Mexico 88201

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

ss.

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

My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF NEW MEXICO )  
COUNTY OF CHAVES )

ss.

The foregoing instrument was acknowledged before me this 9th day of August, 1972 by Tom P. Stephens, Executive Vice-President of FRANKLIN, ASTON & FAIR, INC. Corporation, on behalf of said Corporation, New Mexico.

My Commission Expires: \_\_\_\_\_

Lorenna S. Stephens  
Notary Public

April 3, 1976

CONSENT AND RATIFICATION  
FOUR FORKS UNIT AGREEMENT  
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, dated the 28<sup>th</sup> day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement, or a counterpart thereof.

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

MARATHON OIL COMPANY

DATE: \_\_\_\_\_

By: *D. W. Franklin* *c.c.s.*

ADDRESS: \_\_\_\_\_

D. W. Franklin  
Division Exploration Manager

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

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

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

\_\_\_\_\_  
Notary Public

My Commission Expires:  
\_\_\_\_\_

STATE OF TEXAS )

COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 2nd day of August, 1972 by D. W. Franklin who is Division Exploration Manager, of Marathon Oil Company, an Ohio Corporation, on behalf of said Corporation.

*Sam Friday*  
Notary Public

My Commission Expires:  
June 1, 1973





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



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

THIS AGREEMENT made and entered into as of the July 28  
day of July, 1972, by and between Inexco Oil  
Company, with offices at Midland, Texas, hereinafter referred  
to as "Unit Operator", and the undersigned as owners of  
working interests in the unitized substances within the  
unit area subject to the Unit Agreement hereinafter referred  
to as may subscribe to this agreement and become parties  
hereto, which owners are hereinafter referred to as "Working  
Interest Owners" or as "Non-Operators".

WITNESSETH:

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

Township 22 South, Range 25 East, N.M.P.M.

Section 3: Lots 1,2,5,6,7,8,9,10,11,12,  
S/2 NE/4 and SE/4 (all)

Section 10: Lots 1,2,3,4,5,6,7,8, and W/2 (all)

Section 11: All

Section 14: All

Section 15: Lots 1,2,3,4, W/2 and SE/4 (all)

Containing 3172.73 acres, more or less

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

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

#### ARTICLE I

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

#### ARTICLE II

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

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

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

and interests and,

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

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

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

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

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

### 2.3 LOSS OF LEASES FOR CAUSES OTHER THAN TITLE FAILURE:

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

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

### ARTICLE III

#### MANAGEMENT OF UNIT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

#### ARTICLE IV

##### COST OF OPERATIONS AND ALLOCATION OF PRODUCTION

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

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

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

All production remaining after allocating the production for the purpose of paying royalties, overriding royalties and obligations payable out of production as above provided (and being the working interest) shall be allocated to the respective Working Interest Owners (except as to the initial test well) in accordance with the percentages reflecting their net respective beneficial interests as shown in Column 6, on page 2 of Exhibit "C" attached hereto.

Exhibit "C" shows the interest of each Working Interest Owner as of the time of the commitment of the respective tracts to the Unit Agreement, as well as the beneficial interests of each

Working Interest Owner, after taking into consideration the contributing of certain interests in connection with the drilling of the initial test well as reflected by said exhibit.

The beneficial interests of the respective Working Interest Owners as shown on Exhibit "C" have been determined as to each party on an adjusted surface acreage basis. The adjustment in surface area has been made by determining the fraction of the total unitized substances produced from or allocated to any tract which may be required to meet all royalty, overriding royalty, production payments or other obligations payable out of production from or allocated to such tract and multiplying that fraction by the number of acres contained in such tract and deducting the product from the total number of acres in said tract, the remainder being the adjusted surface acreage in each such tract. The beneficial interest of each party shown on Exhibit "C" attached hereto represents the sum of the net acre interests owned by each party in all tracts committed to the Unit Agreement divided by the total number of net acres committed to the unit area.

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

- (i) The working interest in any tract shown on Exhibit "C" is not committed to the Unit Agreement;
- (ii) any tract is eliminated through failure of title or lost through failure to pay rentals in conformity with Section 6.1 hereof;
- (iii) if there should be any errors in mathematical computations or there is any additional overriding royalty interest or lease burden unknown to the parties hereto outstanding as of the time of the commitment of the respective tracts to the Unit Agreement;
- (iv) to carry out the adjustments in acreage ownership and participating interests required by the acreage contribution agreements referred to in Section 5.1 hereof;
- (v) upon the payment of each production payment shown by Exhibit "B" attached to the Unit Agreement.

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

Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to the execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to abandon a well under Section 5.7 hereof, elects to surrender a lease under Section 7.4 hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 4.4 hereof for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

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

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

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

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

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

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

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

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

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



ARTICLE V

WELLS

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

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

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

In connection with the drilling of the initial test well Union Oil Company of California, Marathon Oil Company, Gulf Oil Corporation, Pennzoil United, Inc. and Allied Chemical Corporation, hereinafter referred to as "non-participating parties", have

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

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

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

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

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

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

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

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

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

5.3 MODIFICATION OF DRILLING REQUIREMENTS OF UNIT AGREEMENT:

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

#### ARTICLE VI

##### RENTALS, ROYALTIES AND PRODUCTION

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

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

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

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

In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, then the terms of the Gas Storage Agreement attached hereto labeled Exhibit "F" shall become effective.

#### ARTICLE VII

##### CHANGE OF OWNERSHIP

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

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

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

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

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



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

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

#### ARTICLE VIII

##### MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*ATTEST*  
Robert J. [Signature]

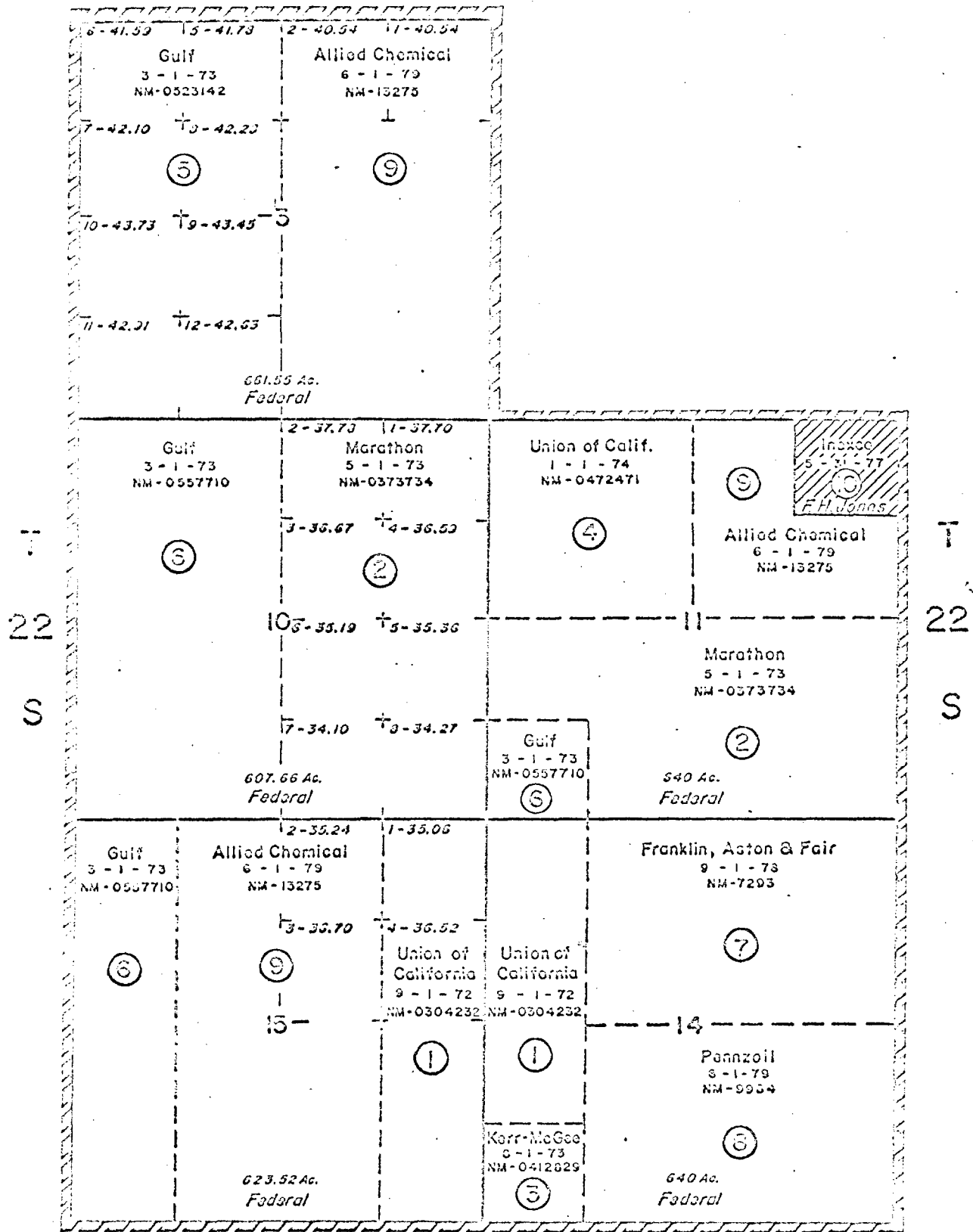
INEXCO OIL COMPANY

By: Carl J. [Signature] *VP*  
VICE PRESIDENT

Address: \_\_\_\_\_

UNIT OPERATOR AND WORKING INTEREST OWNER

R - 25 - E



R - 25 - E



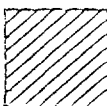
TRACT NUMBER



UNIT OUTLINE CONTAINING 3,172.73 ACRES



FEDERAL LANDS - 3,132.73 ACRES  
98.7392 % OF UNIT



PATENTED (FEE) LANDS - 40 ACRES  
1.2608 % OF UNIT

EXHIBIT "A"

FOUR FORKS UNIT  
EDDY COUNTY, NEW MEXICO

SCALE: 1" = 2000'

EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES  
FOUR FORKS UNIT AGREEMENT  
Eddy County, New Mexico

Tract No.	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty		Working Interest Owner		
							Owner and Percentage	Percentage	and	Percentage	
	<u>FEDERAL LANDS</u>										
	T-22-S, R-25-E Sec. 14: W/2 NW/4, NW/4 SW/4	271.58	NM 0304232 8/31/72	U.S.A. All	Union Oil Company of California	All	Norris Oil Co.	5.00%	Union Oil Company of California	All	
	Sec. 15: Lots 1 & 4, E/2 SE/4										
	T-22-S, R-25-E Sec. 10: Lots 1,2,3, 4,5,6,7,8	567.66	NM 0373734 4/30/73	U.S.A. All	Marathon Oil Co.	All	John Van Dall Wm. Van Dall Don Van Dall	2.50% 1.25% 1.25%	Marathon Oil Co.	All	
	Sec. 11: N/2 SW/4, SE/4 SW/4, SE/4										
	T-22-S, R-25-E Sec. 14: SW/4 SW/4	40.00	NM 0412829 7/31/73	U.S.A. All	Inexco Oil Co.	All	Kerr-McGee Corp.	5.00%	Inexco Oil Company	All	
	T-22-S, R-25-E Sec. 11: NW/4	160.00	NM 0472471 12/31/73	U.S.A. All	Union Oil Company of California	All	Robert B. Gaffga	3.00%	Union Oil Company of California	All	
	T-22-S, R-25-E Sec. 3: Lots 5,6,7, 8,9,10,11,12	340.47	NM 0523142 2/28/73	U.S.A. All	Gulf Oil Corp.	All	Thomas Allen	5.00%	Gulf Oil Corp.	All	
	T-22-S, R-25-E Sec. 10: W/2	520.00	NM 0557710 2/28/73	U.S.A. All	Gulf Oil Corp.	All	Claire Mask \$750/ac. out of	5.00%	Gulf Oil Corp.	All	
	Sec. 11: SW/4 SW/4										
	Sec. 15: W/2 W/2										
	T-22-S, R-25-E Sec. 14: NE/4, E/2 NW/4	240.00	NM 7293 8/31/78	U.S.A. All	Franklin, Aston & Fair, Inc.	All	A. Lansdale	5.00%	Franklin, Aston & Fair, Inc.	All	



T-22-S, R-25-E Sec. 14: SE/4, E/2 SW/4	240.00	NM 9984 7/31/79	U.S.A. All	Pennzoil United, Inc.	All	Clyde Carr Thomas Allen	1.00% 4.00%	Pennzoil United, Inc.
T-22-S, R-25-E Sec. 3: Lots 1 & 2 S/2 NE/4, SE/4 Sec. 11: W/2 NE/4, SE/4 NE/4 Sec. 15: Lots 2 & 3, W/2 SE/4, E/2 W/2	753.02	NM 13275 5/31/79	U.S.A. All	Allied Chemical Corp.	All	Rio Vista Oil, Inc. Paul Keeler	3.333% 1.666%	Allied Chemical Corp.

3,132.73 Acres Federal Lands

PATENTED (FEE) LANDS

T-22-S, R-25-E Sec. 11: NE/4 NE/4	40.00	Fee	Wayne W. Inexco Oil Company Jones; Frank H. Jones; Sam D. Jones; Douglas C. Jones; Maxine J. Webster; Gladys J. Shattuck; Gladys J. Shattuck A/F for Maggie C. Jones 12.5	Inexco Oil Company	All	None		Inexco Oil Company
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40.00 Acres Fee Lands

R E C A P I T U L A T I O N

* 3,132.73 acres Federal Lands	98.7392% of Unit Area
<u>40.00 acres Fee Lands</u>	<u>1.2608% of Unit Area</u>
3,172.73 acres	100.0000% of Unit Area

\* Includes 240 acres (Tract 8) which is not committed to Unit

## EXHIBIT "C"

## FOUR FORKS UNIT OPERATING AGREEMENT

SCHEDULE SHOWING GROSS AND NET ACREAGE COMMITTED BY WORKING INTEREST OWNERS AND THEIR PERCENTAGE OF BENEFICIAL INTERESTS; ALSO PARTICIPATION OF RESPECTIVE PARTIES IN INITIAL TEST WELL AND SUBSEQUENT WELLS AND PRODUCTION

Working Interest Owners

Tract No.	Acres	% Owned	Acres Committed	Basic Royalty	Overriding Royalty and lease burdens	Net Working Interest - %	Net Working Interest Acres	Beneficial Interest - %
<u>Union Oil Company of California</u>								
	271.58	100.00%	271.58	12.5000%	5%	82.5000%	224.0535	
	160.00	100.00%	160.00	12.5000%	3%	84.5000%	135.2000	14.816397
							<u>359.2535</u>	
<u>Marathon Oil Company</u>								
	567.66	100.00%	567.66	12.5000%	5%	82.5000%	468.3195	19.314516
<u>Inexco Oil Company</u>								
	40.00	100.00%	40.00	12.5000%	5%	82.5000%	33.0000	
	40.00	100.00%	40.00	12.5000%	None	87.5000%	35.0000	2.804468
							<u>68.0000</u>	
<u>Gulf Oil Corp.</u>								
	340.47	100.00%	340.47	12.5000%	5%	82.5000%	280.8877	
	520.00	100.00%	520.00	12.5000%	\$750.00 x 5%	82.5000%	429.0000	
							<u>709.8877</u>	29.277315
<u>Franklin, Aston &amp; Fair, Inc.</u>								
	240.00	100.00%	240.00	12.5000%	5%	82.5000%	198.0000	8.165951
<u>Allied Chemical Corp.</u>								
	753.02	100.00%	753.02	12.5000%	5%	82.5000%	621.2415	25.621353
							<u>2424.7022 acres</u>	100.0000%
			TOTALS	2,932.73 acres				

	<u>COL. 1</u>	<u>COL. 2</u>	<u>COL. 3</u>	<u>COL. 4</u>	<u>COL. 5</u>	<u>COL. 6</u>
Working Interest Owners	Acreage contributed initial test well	Percentage gross acreage contributed initial test well	Cost participation initial test well and operating cost until paid out	Working Interest Participation production test well until paid out	Percentage ownership equipment initial test well after payout and participation drilling and operating costs all subsequent wells	Participation production after payout initial test well and all subsequent wells
Union Oil Co. of California	215.79	7.3580	None	7.3580	7.3580	7.408199
Marathon Oil Co.	283.83	9.6780	None	9.6780	9.6780	9.657258
Inexco Oil Co.	None	None	91.8165	91.83409	47.2722	47.319757
Gulf Oil Corp.	430.235	14.6701	None	14.6701	14.6701	14.638658
Franklin, Aston & Fair, Inc.	None	None	8.1835	8.16591	8.1835	8.165951
Allied Chemical Corp.	376.51	12.8382	None	12.8382	12.8382	12.810177
	1306.36	44.5443%	100.0000	100.0000	100.0000	100.0000

\*Subject to the overriding royalty during payout to "non-participating parties".

## EXHIBIT " D "

Attached to and made a part of Unit Operating Agreement  
for the Development and Operation of the Four Forks Unit Area,  
Eddy County, New Mexico

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

- A.  Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.
- B.  Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

### 2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected 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.  Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

### 3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

### 4. Adjustments

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

### 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

### 6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

- A. (1) Salaries and wages of Operator's employees directly employed on the Joint Property in the conduct of Joint Operations.  
(2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.  
(3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.  
(4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

### 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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

- A.  Operator's actual cost.  
B.  Operator's actual cost not to exceed fifteen per cent (15%).

### 4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. 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 and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by Operator and Non-Operators.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

### 6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

### 7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

### 8. Legal Expense

All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

### 9. Taxes

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

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge therefor on the following basis:

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
- Paragraph 2. (Combined Rates - Well Basis)
- Paragraph 3. (Combined Rates - Percentage Basis)

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

- A.  shall  shall not include salaries and personal expenses of first-level supervisors in the field.
- B.  shall  shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
- C.  shall  shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages 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 ..... office located at or near ..... (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1)  Well Basis

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten	
.....	.....	.....	.....	.....	
.....	.....	.....	.....	.....	
.....	.....	.....	.....	.....	

(2)  Percentage Basis

PERCENTAGE BASIS

Development:

..... Percent ( % ) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent ( % ) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.



~~Paragraph 1, 2 or 3 of this Section III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:~~

- ~~A. Total cost less than \$25,000, no charge.~~
- ~~B. Total cost more than \$25,000, but less than \$100,000, ..... % of total cost.~~
- ~~C. Total cost of \$100,000 or more, ..... % of the first \$100,000 plus ..... % of all over \$100,000 of total cost.~~

~~Total cost shall mean the total gross cost of any one project. For the purpose of this paragraph the component parts of a single project shall not be treated separately and the cost of carrying a project shall not be included.~~

**7. Amendment of Rates**

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

**IV. BASIS OF CHARGES TO JOINT ACCOUNT**

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

**1. Purchases**

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

**2. Material furnished from Operator's Warehouse or Other Properties**

**A. New Material (Condition "A")**

- (1) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
- (2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
- (3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.
- (5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:
  - (a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.
  - (b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

**4. Warranty of Material Furnished by Operator**

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

**5. Equipment and Facilities Furnished by Operator**

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by



outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
- C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

### 1. Material Purchased by the Operator or Non-Operators.

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.

### 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

## VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for new Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account 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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, 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.

## VII. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

### 1. Periodic Inventories, Notice and Representation

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

### 2. Reconciliation and Adjustment of Inventories

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

### 3. Special Inventories

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

### 4. Expense of Conducting Periodic Inventories

The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

EXHIBIT "E"

INSURANCE

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

1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and

\$300,000 for more than one person in any one accident, and

\$500,000 for loss of or damage to property in any one accident and

\$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and

\$300,000 for more than one person in any one accident and

\$ 50,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, no charge will be made to the Joint Account for premiums for this coverage except as provided in Section 111, Paragraph 5 of the Accounting Procedure.

Operator shall require all contractors performing work under this Agreement to carry the following insurance:

1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

2) Comprehensive general public liability insurance with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and

\$100,000 for more than one person in any one accident, and

\$300,000 for loss of or damage to property in any one accident and

\$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and

\$300,000 for more than one person in any one accident, and

\$ 50,000 for loss of or damage to property in any one accident.

EXHIBIT F

FOUR FORKS OPERATING AGREEMENT

GAS STORAGE AGREEMENT

The parties to the Operating Agreement to which this Gas Storage Agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement and are entitled to share in the following percentages:

In accordance with the terms of the Operating Agreement, each party shall have the right to take its share of gas in kind and separately dispose of its proportionate share of the gas produced from the Unit Area. In the event any of the parties hereto is not able to market its share of the gas for some reason, the terms of this storage agreement shall automatically become effective.

1.

During any period or periods when the market of a party is not sufficient to take that party's full share of the gas produced from the Unit, or its purchaser is unable to take its share of gas produced from the Unit, the other party or parties shall be entitled to produce from said Unit (and take or deliver to a purchaser), each month, all or a part of that portion of the allowable gas production assigned to such Unit by the Oil Conservation Commission of New Mexico and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests, as set forth hereinabove, and subject to the terms of the above described Operating Agreement.

2.

Each party unable to market its share of the gas produced, and taking less than its full share, shall be credited with gas in storage equal to its share of the gas produced under this agreement, less such party's share of the gas used in Unit operations, vented, or lost. The operator of the Unit will maintain a running account of the gas balance between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the amount thereof used in Unit operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

3.

After notice to the operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from said Unit (less any used in Unit operations, vented, or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, as set forth hereinabove, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from said well (less any used in Unit operations, vented or lost) plus a share of determined by multiplying twenty five percent (25%) of the interest of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the Unit Area of such party with gas in storage and the denominator of which is the total percentage interest in the Unit of all parties with gas in storage.

4.

Nothing herein shall be construed to deny any party the right, from time to time to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser. Each party, shall at all times, use its best efforts to regulate its takes and deliveries from said Unit so that said Unit will not be shut-in for over producing the allowable assigned thereto by the Oil Conservation Commission of New Mexico.

5.

During the terms of this agreement, while gas is being produced from the Unit Area, each party hereto will make settlement with its respective royalty owners to whom they are each accountable (and the term "royalty owners" shall include owners of royalties, overriding royalties, production payments and similar interests), based on such royalty owner's respective interests in the Unit and on total volumes of gas produced, saved and taken or delivered to purchasers. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

6.

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

7.

In the event production of gas from said Unit Area ceases, prior to the time that the accounts are balanced, a complete balancing will be accomplished by a monetary settlement between the parties for the gas remaining in storage balancing account. Such settlement shall be based upon the price received by the respective parties for their share of the gas which was produced and sold by such party less applicable taxes heretofore paid.

8.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the operating agreement, to which it is attached, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

9.

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

10.

Upon execution of this agreement by all parties hereto, the agreement shall be binding upon the parties, their respective heirs, devisees, legal representatives, and assigns. This agreement may be signed in counterparts and shall have the same effect as if all parties signing counterparts had executed the same instrument.

\_\_\_\_\_ CORPORATION

By \_\_\_\_\_

Accepted and agreed to this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_.

CONSENT AND RATIFICATION  
FOUR FORKS UNIT OPERATING AGREEMENT  
EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Operating Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, dated the 28th day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby consent to said Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Operating Agreement, or a counterpart thereof.

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

DATE: \_\_\_\_\_ MARATHON OIL COMPANY  
ADDRESS: \_\_\_\_\_ By: D. W. Franklin  
Division Exploration Manager

*HOP  
JCP*

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

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

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

STATE OF TEXAS )  
COUNTY OF ~~WARRANT~~ MIDLAND )

The foregoing instrument was acknowledged before me this 24th day of August, 1972 by D. W. Franklin, Division Exploration Manager of Marathon Oil Company, an Corporation, on behalf of said Corporation.  
Ohio

Joni Friday  
Notary Public

My Commission Expires: June 1, 1973



CONSENT AND RATIFICATION  
 FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
 EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 28th day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

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

FRANKLIN, ASTON & FAIR, INC. \_\_\_\_\_

By: Wm. Ann Morrison  
 Secretary

By: Tom P. Stephens  
 Executive Vice-President

DATE: August 9, 1972

P. O. Box 1090  
Roswell, New Mexico 88201

STATE OF \_\_\_\_\_ )  
 ) ss.  
 COUNTY OF \_\_\_\_\_ )

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

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF NEW MEXICO )  
 ) ss.  
 COUNTY OF CHAVES )

The foregoing instrument was acknowledged before me this 9th day of August, 1972 by Tom P. Stephens, Executive Vice-President of FRANKLIN, ASTON & FAIR, INC., a Corporation, on behalf of said Corporation. New Mexico

My Commission Expires: April 3, 1976 Notary Public

CONSENT AND RATIFICATION  
 FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
 EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 22<sup>nd</sup> day of August, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

DATE: 8-15-72  
 ADDRESS: P. O. Box 1150  
Midland, TX 79701

Form Approved  
Law Dept. 41

GULF OIL CORPORATION  
 BY: W. B. Hopkins  
 Attorney in Fact

MIDLAND GA  
 ACCTG. UNIT  
JES

STATE OF \_\_\_\_\_ )  
 ) ss.  
 COUNTY OF \_\_\_\_\_ )

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

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF TEXAS )  
 ) ss.  
 COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of August, 1972 by W. B. Hopkins, Attorney in Fact of Gulf Oil Corporation, a Corporation, on behalf of said Corporation, Pennsylvania

Emily Jones  
 EMILY JONES  
 Notary Public

My Commission Expires: 6-1-73



CONSENT AND RATIFICATION  
 FOUR FORKS UNIT AND UNIT OPERATING AGREEMENT  
 EMBRACING LANDS IN EDDY COUNTY, NEW MEXICO

The undersigned hereby acknowledges receipt of a copy of the Unit Agreement for the Development and Operation of the Four Forks Unit Area embracing lands situated in Eddy County, New Mexico, and also a copy of the Unit Operating Agreement for said unit area, both of which are dated the 21<sup>st</sup> day of July, 1972, and further acknowledges that the undersigned is familiar with the terms and conditions thereof. The undersigned, being the owner of certain leasehold or other interests in the lands or minerals embraced in said unit area as set forth on the schedule attached to said Unit Agreement as Exhibit "B" does hereby commit all of its said interest to the Four Forks Unit Agreement and does hereby consent to said Unit Agreement and the Unit Operating Agreement and ratifies all of the terms and provisions thereof exactly the same as if the undersigned had executed the original of said Unit Agreement and Unit Operating Agreement, or a counterpart thereof.

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

DATE: August 2, 1972  
 ADDRESS: P. O. Box 2120  
Houston, Texas 77001

Allied Chemical Corporation  
 By Roger W. Stoneburner  
 Roger W. Stoneburner, Attorney-in-Fact  
 For Power of Attorney see Serial No.  
 NM-0558400 which authority is still in  
 effect.

STATE OF \_\_\_\_\_ )  
 ) ss.  
 COUNTY OF \_\_\_\_\_ )

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

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF TEXAS )  
 ) ss.  
 COUNTY OF HARRIS )

The foregoing instrument was acknowledged before me this 2<sup>nd</sup> day of August, 1972 by Roger W. Stoneburner, Attorney-in-Fact of Allied Chemical Corporation, a Corporation, on behalf of said Corporation.  
New York

My Commission Expires: June 1, 1975  
Linda Lou Harrison  
 Notary Public