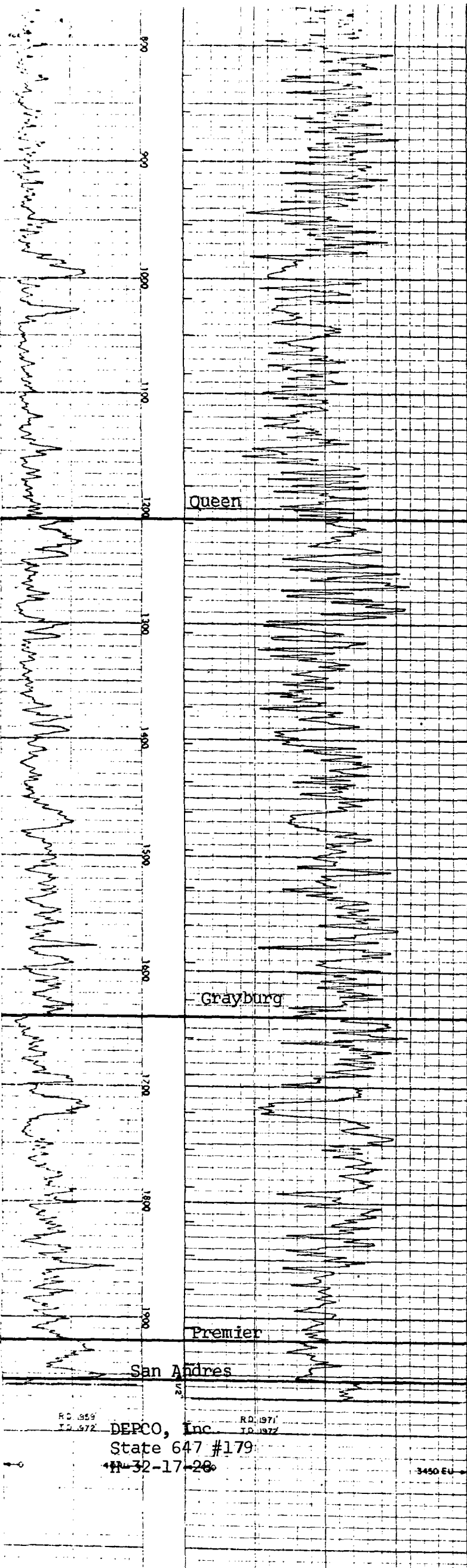


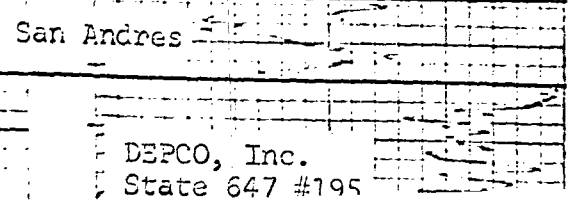
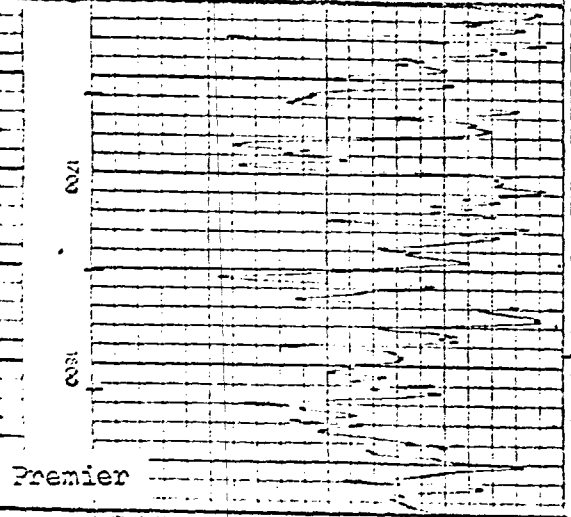
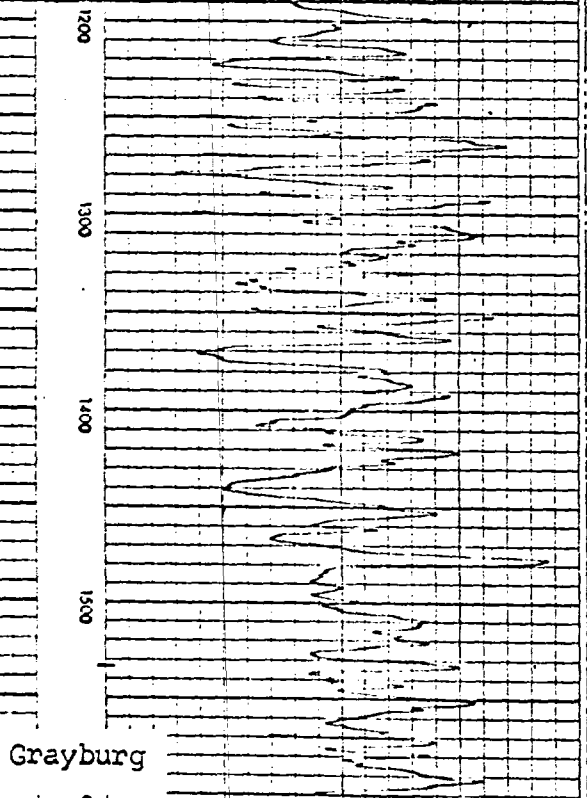
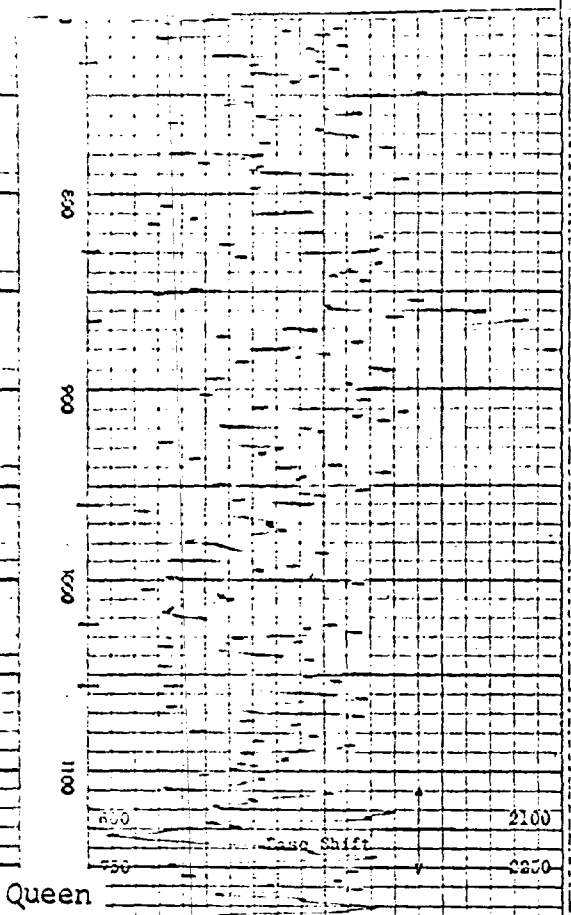
LOGS

BEFORE EXAMINER NUTTER	
CH	FOR COMMISSION
Applicant	NO. <u>2</u>
<u>5144-5161</u>	

EXHIBIT 2

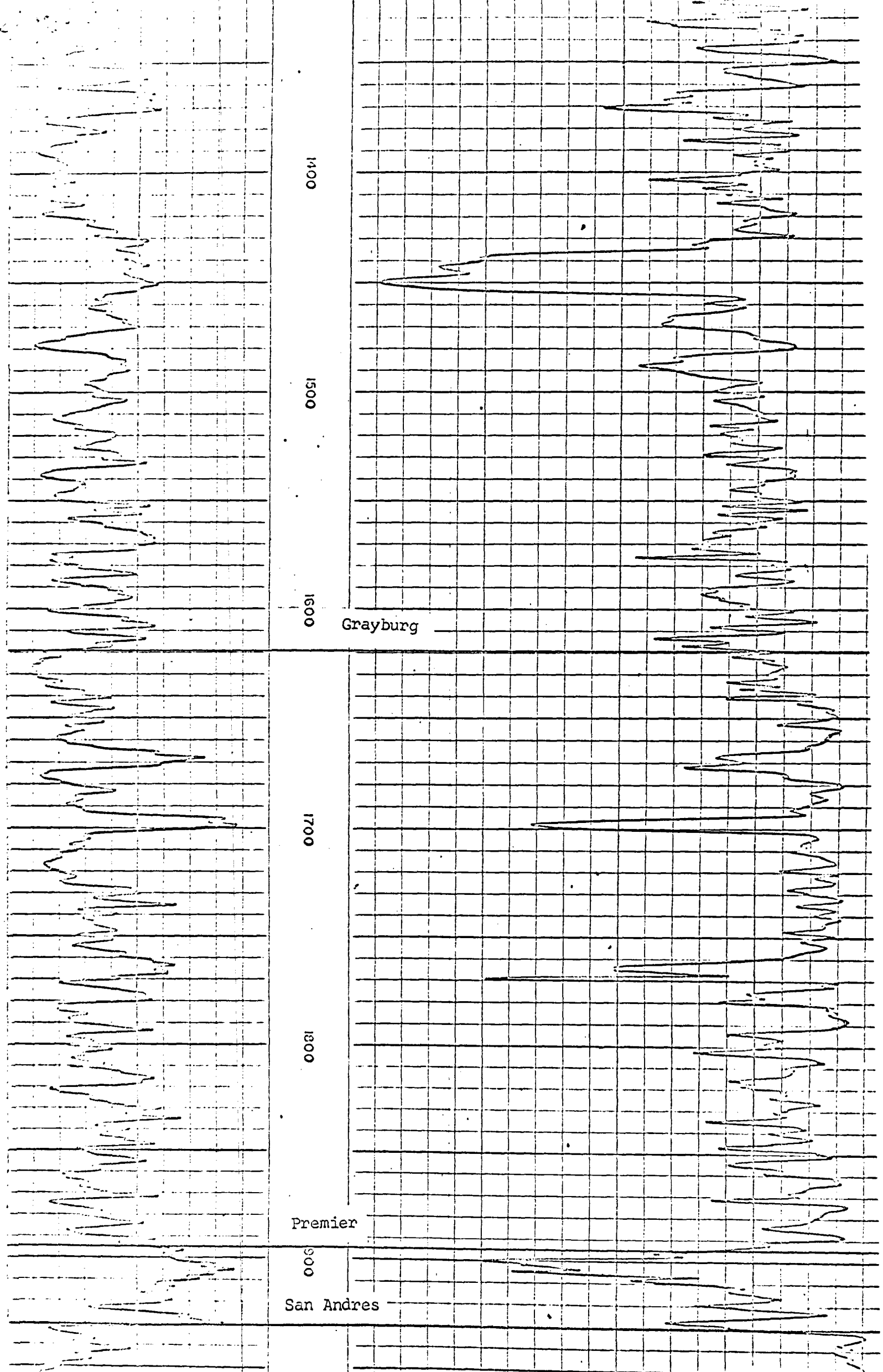


ILLEGIBLE



DEPCO, Inc.
State 647 #195

ILLEGIBLE



Grayburg

Premier

San Andres

Queen

Grayburg

Premier

San Andres

DEPCO, Inc.

State 647 #208

L, 32-17-28

DENSITY IN GM/CM³

ILLEGIBLE

002

005

009

1100

Queen

1200

1300

1400

1500

1600

Grayburg

1700

1800

1900

Premier

San Andres

DEPCO, Inc.
State 647 #212
N, 32-17-28

ILLEGIBLE

DIAGRAMMATIC SKETCHES

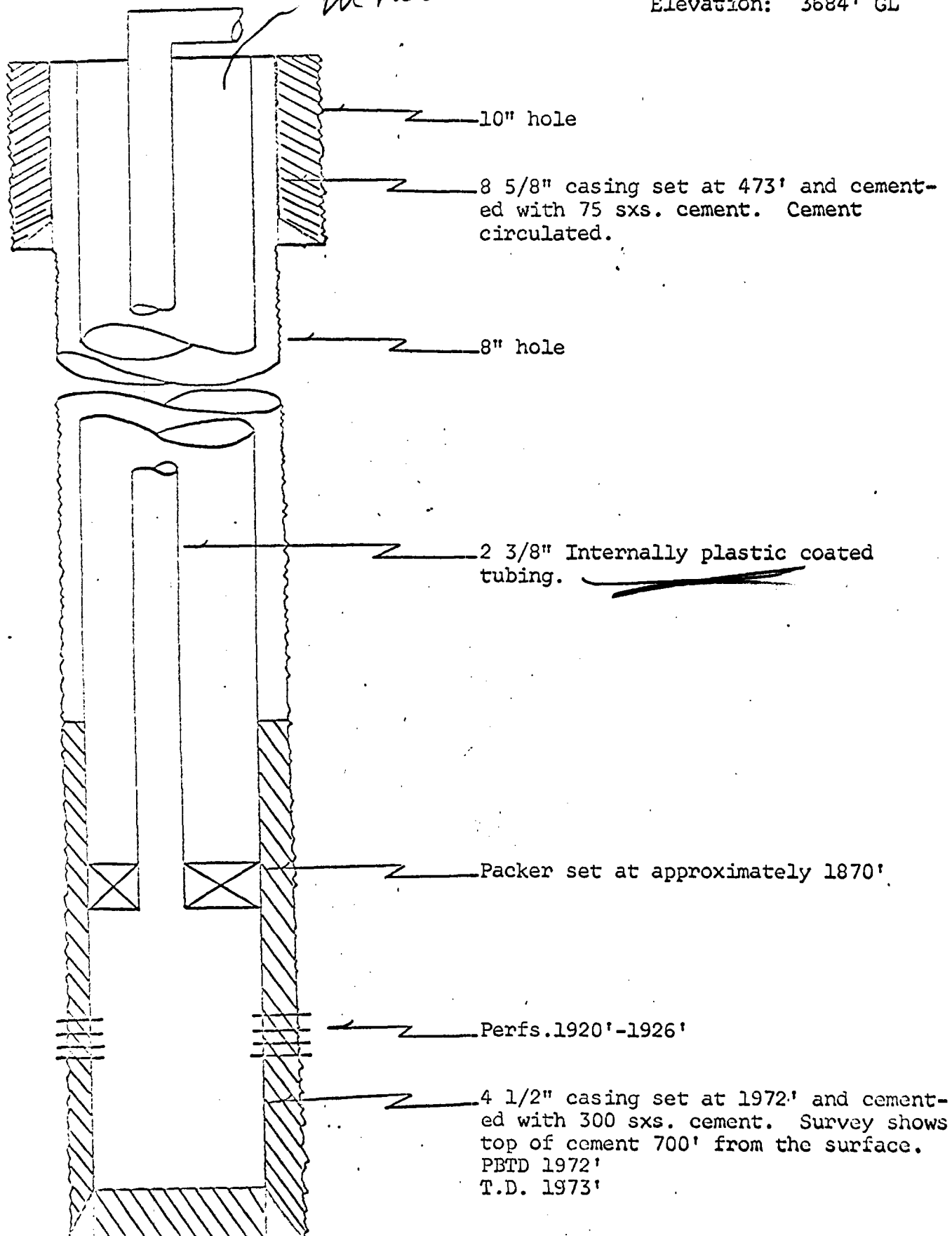
BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Applicant <u> </u> EXHIBIT NO. <u>3</u>
CASE NO. <u>5144-5161</u>

CASE NO. <u> </u>
EXHIBIT NO. <u> </u>
OIL CONSERVATION COMMISSION
BEFORE EXAMINER NUTTER

Diagrammatic Sketch
Proposed Well Condition
State 647 Well No. 179

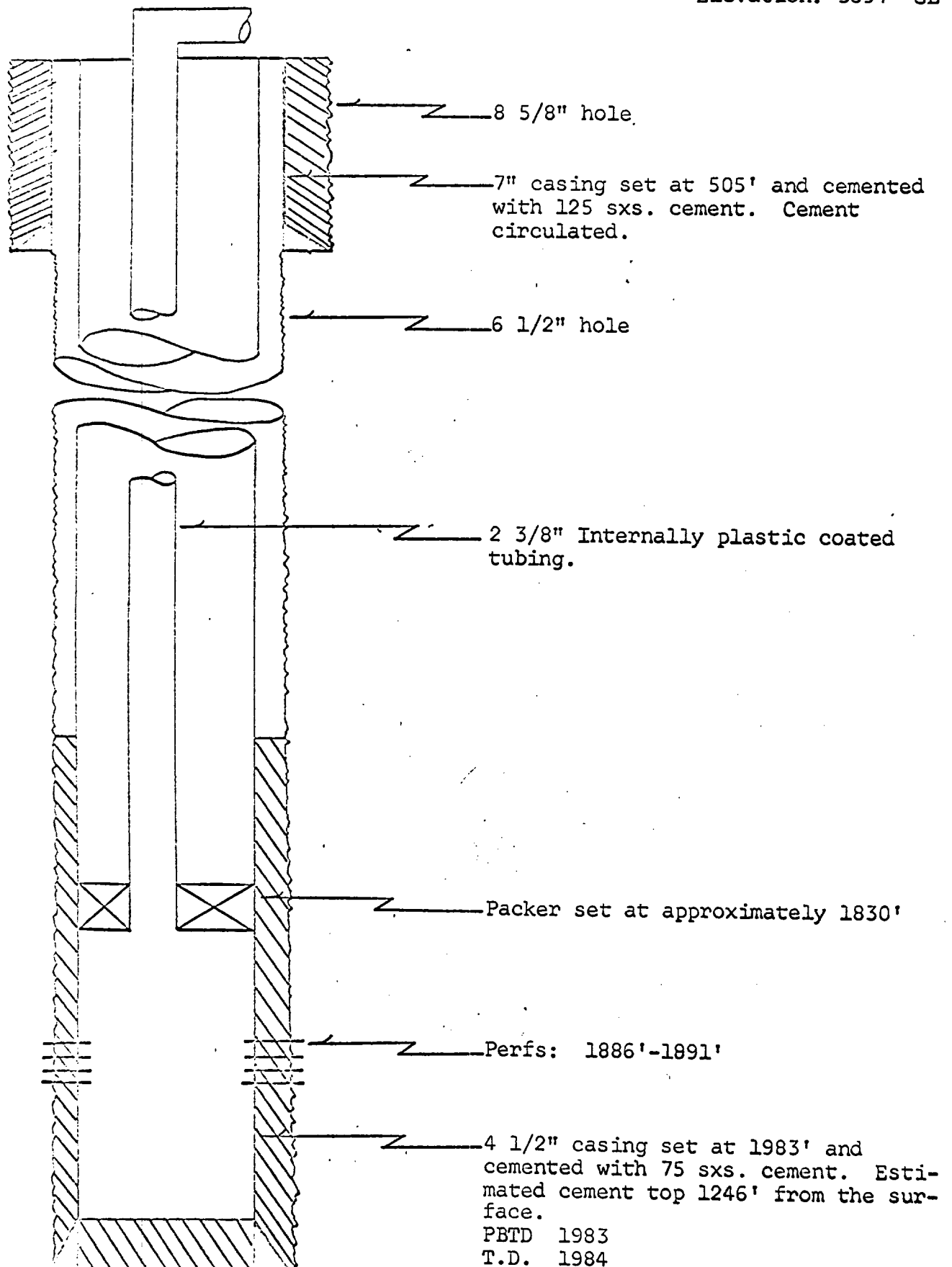
inhibited wtr

Elevation: 3684' GL



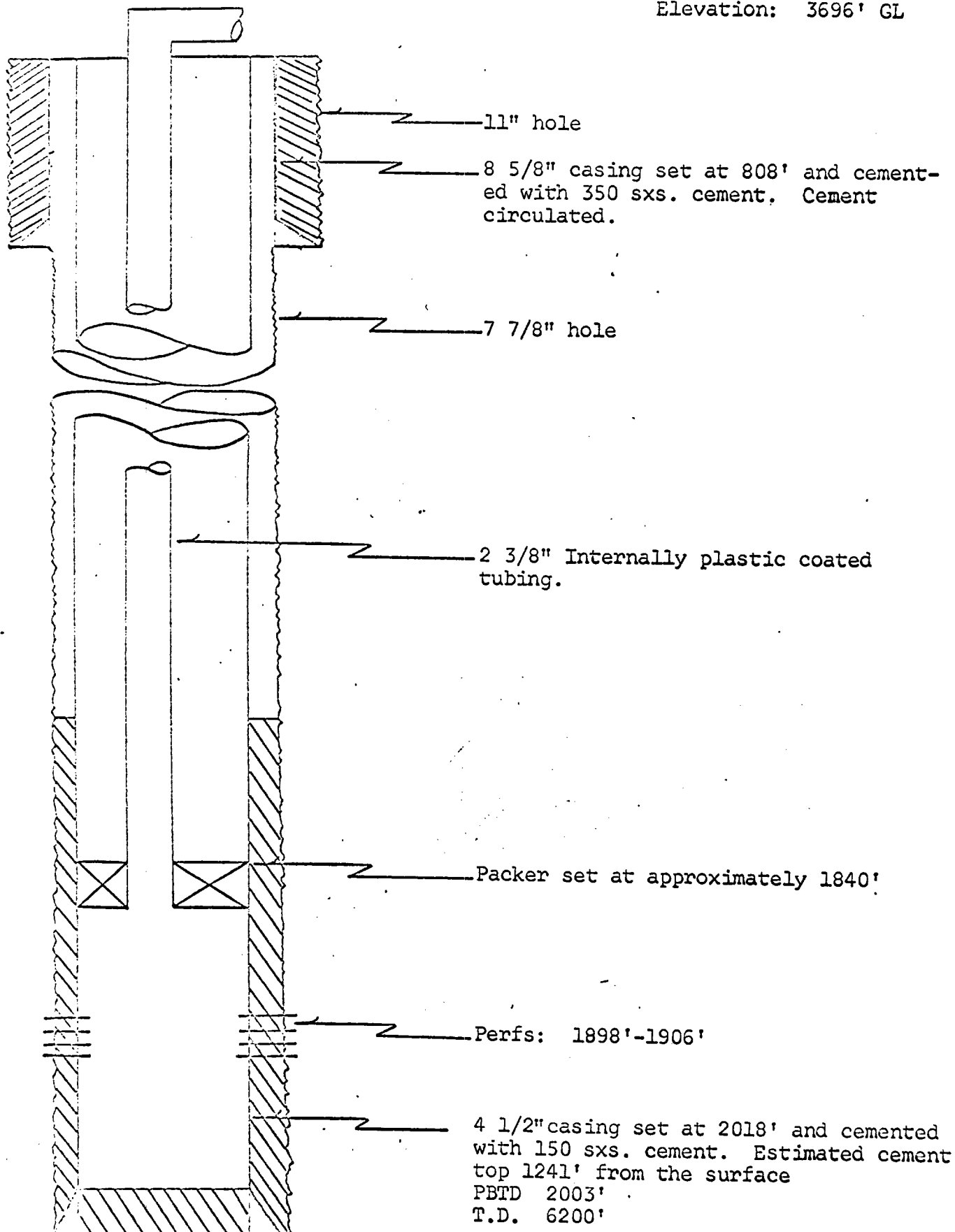
Diagrammatic Sketch
Proposed Well Conditions
State 647 Well No. 195

Elevation: 3694' GL



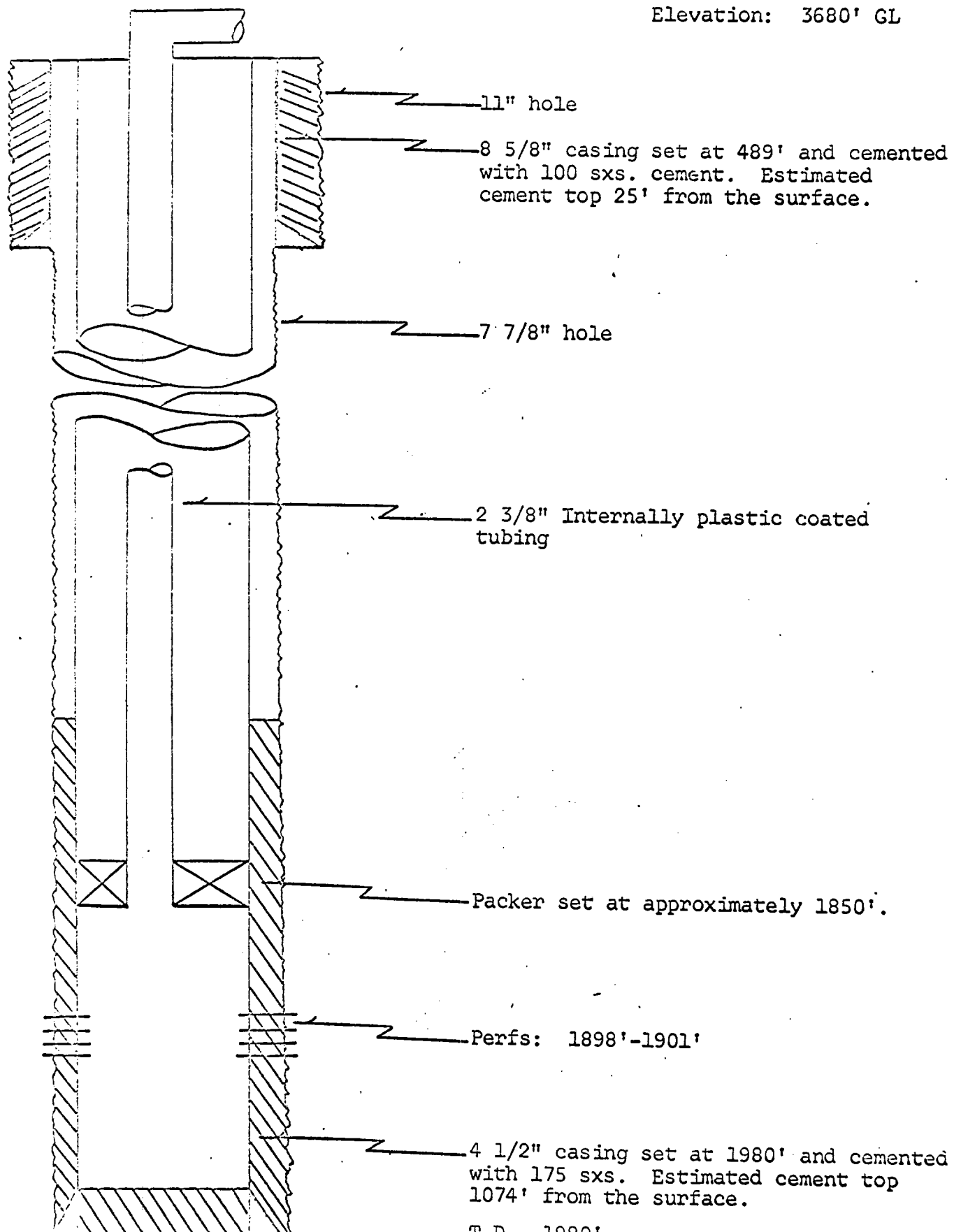
Diagrammatic Sketch
Proposed Well Condition
State 647 Well No. 206

Elevation: 3696' GL



Diagrammatic Sketch
Proposed well condition
State 647 Well No. 208

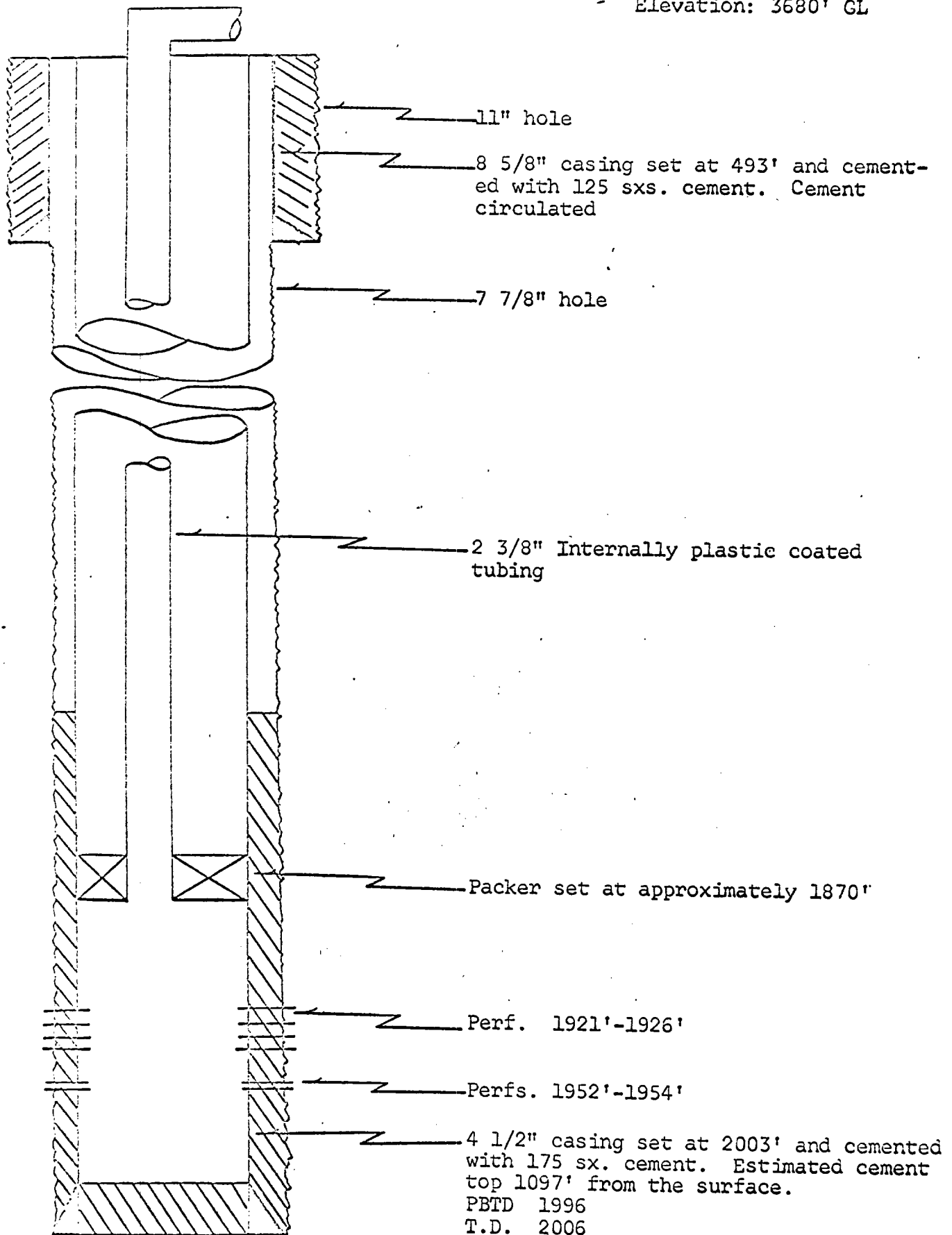
Elevation: 3680' GL



7 11 10001

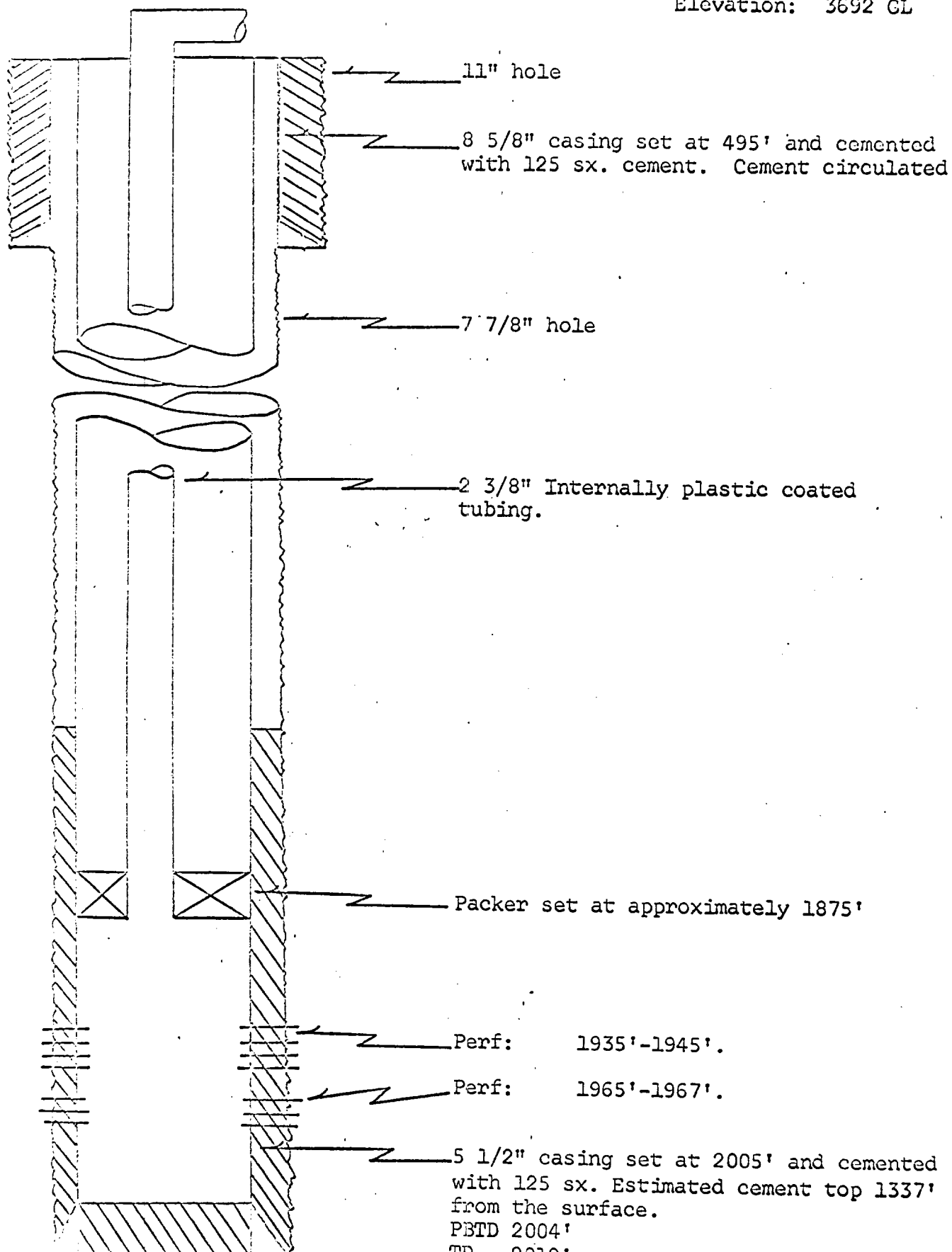
Diagrammatic Sketch
Proposed Well Condition
State 647 Well No. 212

Elevation: 3680' GL



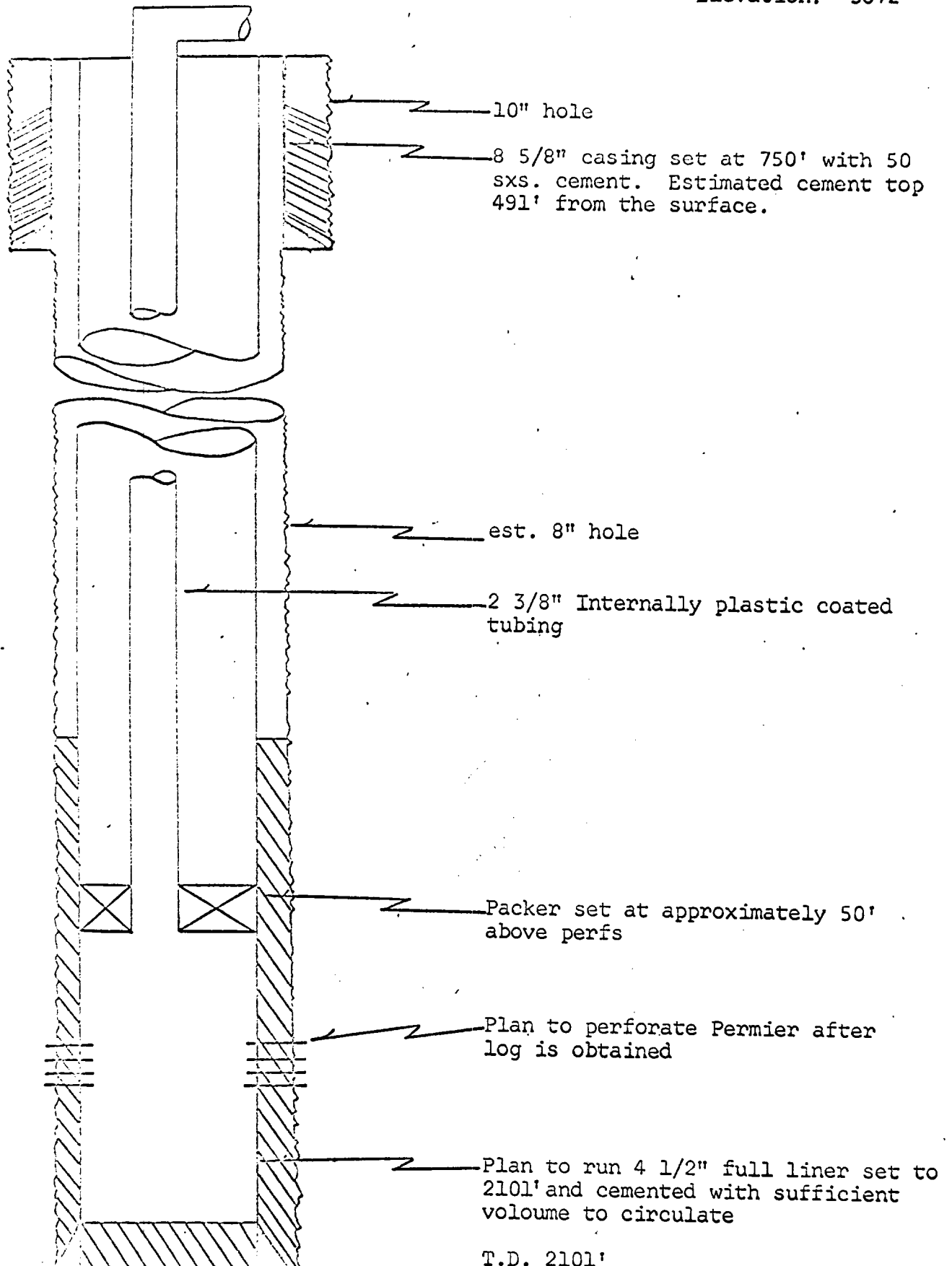
Diagrammatic Sketch
Proposed Well Condition
State 647' Well No. 219

Elevation: 3692 GL



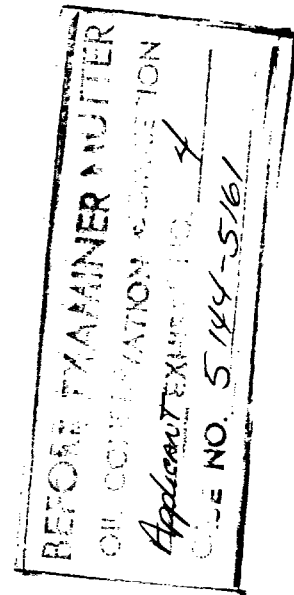
Diagrammatic Sketch
Proposed Well Condition
Ramapo "A" Well No. 2

Elevation: 3672



Northwest Artesia Unit
INDIVIDUAL WELL DATA
ON OFFSET PRODUCERS TO WATER INJECTORS

<u>Lease</u>	<u>Well No.</u>	<u>Cumulative BO as of 9-1-73</u>	<u>August BOPD</u>	<u>Date of Completion</u>	<u>Completion Interval</u>	<u>Stimulation</u>
State 647 AC. 722	180	32,336	3	1-62	1915-1922	SOF 24,000 gal x 1.3PPG
	186	26,479	2	4-62	1911-1940	SOF 27,000 gal x 1.1PPG
	196	13,603	1	6-63	1894-1899	SOF 20,000 gal x 1.5PPG
	211	14,583	3	5-66	1898-1908	SOF 38,000 gal x 1.3PPG
Delhi State Ramapo A	213	10,467	1	6-66	1930-1934	SOF 38,000 gal x 1.3PPG
	216	12,230	2	2-67	1913-1925	SWF 30,000 gal x 1.3PPG
	220	13,242	2	5-67	1944-1945	SWF 36,300 gal x 1.1PPG
	14	12,038	1/2	4-55	1962-1994	SOF 10,000 gal x 1.5PPG
State 647 AC. 722	1	34,250	1	1-54	1800-1812	SOF 6,000 gal x 2.0PPG
	179	32,194	1	11-61	1922-1949	
	195	24,621	2	6-63	1800-2099	SOF 48,000 gal x 1.3PPG
	206	14,907	3	3-66	1920-1926	SOF 20,000 gal x 1.5PPG
Ramapo A	208	14,599	3	5-66	1886-1891	SWF 28,000 gal x 1.3PPG
	212	7,723	1	6-66	1898-1901	SOF 38,000 gal x 1.3PPG
	219	6,028	1	5-67	1921-1926	SOF 38,000 gal x 1.3PPG
					1935-1967	SWF 40,000 gal x 1.0PPG
Ramapo A	2	31,670	1	5-54	1967-1970	SOF 6,000 gal x 2.0PPG
					2077-2087	



*new amount Aug 73
gas in core
or 73% depleted*

Corrected Copy

Water Analysis of Proposed Injection Water

FEDERAL BUREAU OF INVESTIGATION
 U. S. DEPARTMENT OF JUSTICE
 Application No. 5
 FILE NO. 544-5161



CORE LABORATORIES, INC.
Petroleum Reserve Engineering
DALLAS, TEXAS
WATER ANALYSIS

Page 3 of 12
File IWTL-71118

Company Depco Inc. Well Name _____ Sample No. 3
Plant No. 2 -
Formation _____ Depth _____ Sampled From Injection Pump
Location _____ Field Artesia Unit County Eddy State New Mexico
Date Sampled _____ Date Analyzed 1-15 to 1-19, 1972 Analyst RLC

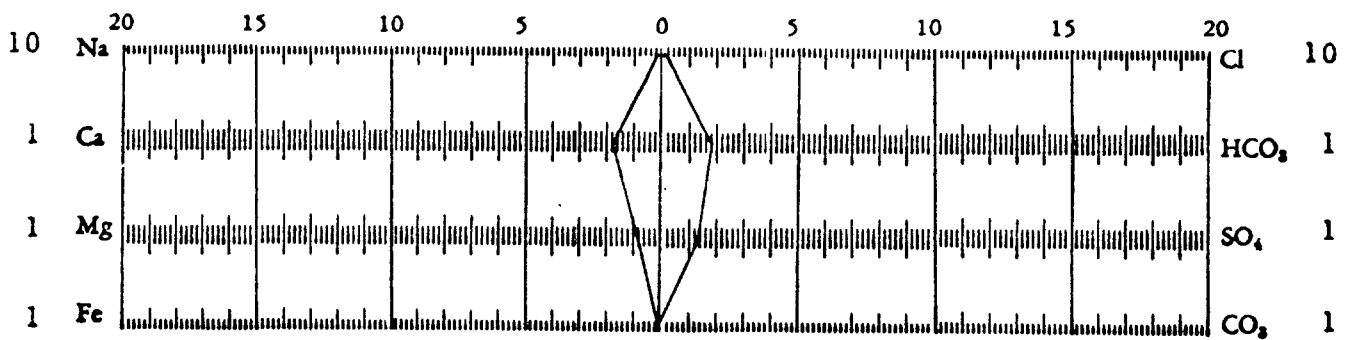
Total Dissolved Solids 307 mg/L calculated Specific Gravity .9976 @ 60° F.
.9948 @ 74° F.

Resistivity 21.47 ohm-meters @ 74° F. measured Hydrogen Sulfide absent
pH 7.5 @ 74° F.

* Constituents	meq/L	mg/L	Constituents	meq/L	mg/L
Sodium	0.90	21	Chloride	1.16	41
Calcium	2.70	54	Bicarbonate	1.84	112
Magnesium	.82	10	Sulfate	1.42	68 (Grav.)
Iron	-0-	Trace	Carbonate	-0-	-0-
Barium	-0-	-0- (Grav.)	Hydroxide	-0-	-0-

Oxygen (field measurement) 1.5 ppm

* All analyses except iron determination performed on a filtered sample.



Scale: meq/L

	<u>Actual Plugging Solids</u>	<u>Mg/L</u>
Total Solids		1.6500
Organic		1.1800
Hydrated Iron Oxides		.4700
Calcium as CaCO ₃		.0000
Magnesium as MgCO ₃		.0000
Sulfate as SO ₄		.0000
Insoluble Siliceous Residue		.0000



CORE LABORATORIES, INC.
Petroleum Reserve Engineering
DALLAS, TEXAS
WATER ANALYSIS

Page 2 of 12
File IWTL-71118

Company Depco Inc. Well Name _____ Sample No. 2
Plant Inlet -
Formation _____ Depth _____ Sampled From Plant No. 2
Location _____ Field Artesia Unit County Eddy State New Mexico
Date Sampled _____ Date Analyzed 1-15 to 1-19, 1972 Analyst RLC

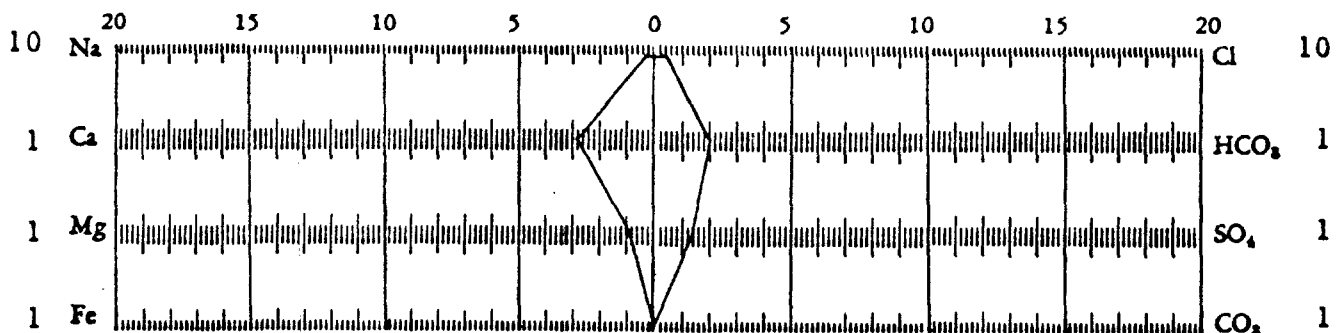
Total Dissolved Solids 332 mg/L calculated Specific Gravity .9968 @ 60° F.
.9940 @ 74° F.

Resistivity 20.52 ohm-meters @ 74° F. measured Hydrogen Sulfide absent
pH 7.5 @ 74° F.

* Constituents	meq/L	mg/L	Constituents	meq/L	mg/L
Sodium	1.17	27	Chloride	1.36	48
Calcium	2.80	56	Bicarbonate	2.04	124
Magnesium	.82	10	Sulfate	1.39	67 (Grav.)
Iron	-0-	Trace	Carbonate	-0-	-0-
Barium	-0-	-0- (Grav.)	Hydroxide	-0-	-0-

Oxygen (field measurement) 2.2 ppm

* All analyses except iron determination performed on a filtered sample.



Scale: meq/L

Actual Plugging Solids	Mg/L
Total Solids	1.0400
Organic	.2933
Hydrated Iron Oxides	.4667
Calcium as CaCO ₃	.0000
Magnesium as MgCO ₃	.0000
Sulfate as SO ₄	.0000
Insoluble Siliceous Residue	.2800

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTHWEST ARTESIA UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

Index
Preamble
Agreement Proper

Map of Unit Area. Exhibit "A"
Tract Ownership and Participation . . . Exhibit "B"

RECEIVED	
APPLICANT	
C	5144 - 5161

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTHWEST ARTESIA UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

I N D E X

Article

1	Enabling Act and Regulations
2	Definitions
3	Exhibits
4	Expansion of Unit Area
5	Unitized Land and Unitized Substances
6	Unit Operator
7	Resignation or Removal of Unit Operator
8	Successor Unit Operator
9	Accounting Provisions and Unit Operating Agreement
10	Rights and Obligations of Unit Operator
11	Equipment and Facilities not Fixtures Attached to Realty
12	Plan of Further Development and Operation
13	Participation
14	Tracts Qualified for Participation
15	Allocation of Unitized Substances
16	Balancing of Production
17	Royalty Settlement
18	Rental Settlement
19	Conservation
20	Drainage
21	Leases and Contracts Conformed and Extended
22	Covenants Run With Land

I N D E X

(Continued)

Article

23	Effective Date and Term
24	Appearances
25	Notices
26	No Waiver of Certain Rights
27	Unavoidable Delay
28	Loss of Title
29	Nonjoinder and Subsequent Joinder
30	Counterparts
31	Taxes
32	Conflict of Supervision
33	No Partnership
34	Border Agreements

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTHWEST ARTESIA UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

THIS AGREEMENT entered into as of the _____ day of _____, 1973, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H:

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Volume 2, Chapter 7, Article 11, New Mexico Statutes, 1953 Annotated) to consent to and approve the development or operation of State Lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 7, Art. 11, Sec. 41, N.M. Stats. 1953 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Volume 9, Part 2, Chapter 65, Article 3, New Mexico Statutes, 1953 Annotated) to approve this agreement and the conservation provisions hereof; and

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

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the "Unit Area" and the "Unitized Formation" lying thereunder (as those terms are defined hereinafter) and agree severally among themselves as follows:

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

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

(a) "Commission" means the Oil Conservation Commission of the State of New Mexico.

(b) "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

(c) "Royalty Interest" or "Royalty" means an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(d) "Royalty Owner" means the owner of a Royalty Interest.

(e) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "B".

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit "B".

(g) "Unit Area" means the land shown on Exhibit "A", and described by Tracts in Exhibit "B", containing 640 acres, more or less.

(h) "Unit Operating Agreement" means any agreement or agreements, whether one or more, entered into either separately or collectively by and between the Unit Operator and the Working Interest Owners, as provided in Section 9, ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT, and shall be styled "Unit Operating Agreement for the Development and Operation of the Northwest Artesia Unit Area, County of Eddy, State of New Mexico."

(i) "Unit Participation" means the sum of all Tract Participations or portions thereof which a party is entitled to receive.

(j) "Unitized Formation" means that inclusive subsurface portion throughout the Unit Area of the Queen-Grayburg-San Andres formations as such formations occur between the depth interval measured from the kelly bushing, of 1180 feet and 2100 feet in Depco, Inc. State 647 Well No. 206 as shown on the Schlumberger Gamma-Neutron log of said well which is located in the SE/4 of the NE/4 of Section 31, Township 17 South, Range 28 East, Eddy County, New Mexico.

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

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

(m) "Working Interest Owner" means a party hereto who owns a Working Interest.

(n) "Voting Interest". Each Working Interest Owner shall have a voting interest equal to its Unit Participation which is in effect at the time the vote is taken.

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

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

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

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

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

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

3. EXHIBITS. Attached hereto are the following exhibits which are incorporated herein by reference:

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

Exhibit "B", which is a schedule that describes each Tract in the Unit Area, the working interest ownership and shows Tract Participation.

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

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

3.3 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners and the Commissioner, may correct the mistake by revising the exhibits to conform to the facts. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day

of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

3.4 Filing Revised Exhibits. If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the revised exhibit for record in Eddy County, New Mexico, and with the Commissioner.

4. EXPANSION OF UNIT AREA. The Unit Area may be expanded to include acreage reasonably proved to be productive upon such terms as may be determined by Working Interest Owners including, but not limited to the following:

(a) The acreage shall qualify under a Section of Article 14.

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

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

4.1 Determination of Tract Participation. Unit Operator, subject to Section 13.1, shall determine the Tract Participation of each Tract within the Unit Area as enlarged and shall revise Exhibits "A" and "B" accordingly.

4.2 Effective Date. The effective date of any enlargement of the Unit Area shall be 7:00 a.m. on the first day of the calendar month following compliance with conditions for enlargement as specified by Working Interest Owners, approval by the Commissioner and the Commission, and the filing for record of revised Exhibits "A" and "B" in the records of Eddy County, New Mexico.

5. UNITIZED LAND AND UNITIZED SUBSTANCES. All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid and liquefiable hydrocarbons in the lands committed to this agreement are, as to the Queen-Grayburg-San Andres formations, unitized under the terms of this agreement (and are herein called "Unitized Substances") and said lands shall constitute lands referred to herein as "unitized land" or "land subject to this agreement."

6. UNIT OPERATOR. Depco, Inc., is hereby designated as the Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties of Unit Operator for the development and production of Unitized Substances as herein provided. Whenever reference is made herein to the "Unit Operator," such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such interest is owned by it.

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Commissioner and the Commission, and until all wells then drilled hereunder

are placed in satisfactory condition for suspension or abandonment, whichever is required by the Commission as to State lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by affirmative vote of at least seventy-five percent (75%) of the Voting Interest remaining after excluding the voting interest of Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

In all such 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 the performance of the duties of Unit Operator and shall, not later than thirty (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 or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interests in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the Unit Operations owned by the Working Interest Owners to the new duly qualified successor Unit Operator, or to the common agent, or to the owner thereof if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator, or shall be removed as hereinabove provided, the Working Interest Owners shall, by affirmative vote of at least seventy-five per cent (75%) of the Voting Interests, select a successor Unit Operator; provided, however, that should any Working Interest Owner own a Voting Interest of more than twenty-five percent (25%), the vote of said party shall not serve to disapprove the selection of a new Unit Operator approved by eighty per cent (80%) or more of the Voting Interests of the remaining Working Interest Owners and provided, further, that the Unit Operator shall not vote to succeed itself and its Voting Interest shall not be counted in a vote concerning its removal as the Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner may, at his election, declare this Unit Agreement terminated.

9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. All costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be apportioned among, borne and paid by the Working Interest Owners, all in accordance with this agreement and the Unit Operating Agreement. The Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as they may agree upon. However, the Unit

Operating Agreement shall not be deemed either to modify the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement; in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement shall be filed with the Commissioner.

10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto (including surface rights) which are necessary or convenient for the prospecting for, producing, storing, allocating, and distributing the Unitized Substances, are hereby granted and delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land, lease, Royalty Interest, operating agreement or communitization agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

11. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners and is hereby excepted from the provisions of this agreement. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

12. PLAN OF FURTHER DEVELOPMENT AND OPERATION. It is recognized and agreed by the parties hereto that the object and purpose of this agreement is to formulate and to put into effect a secondary recovery project in order to effect the optimum recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, or any other substance or a combination of any of said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. This agreement is and shall be subject to the conservation laws of the State of New Mexico, to all other applicable federal, state and municipal laws, rules, regulations, and orders. The parties hereto, subject to prior rights, if any, grant to Unit Operator the use of brine or water or both from any formation in and under the Unit Area for injection into the Unitized Formation. After commencement of secondary operations, Unit Operator shall furnish the Commissioner monthly injection and production reports for each well in the Unit Area. The Working Interest Owners and the Commissioner shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and the Commission.

13. PARTICIPATION. In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract is a figure which represents the percentage of participation allocated to each tract in the Unit Area, being hereinafter defined:

Tract participation equals

15% of $\frac{\text{Total Tract Oil Production for 1972}}{\text{Total Unit Area Oil Production for 1972}}$

plus

85% of $\frac{\text{Cumulative Oil Production From Tract to 1-1-73}}{\text{Cumulative Oil Production From Unit Area to 1-1-73}}$

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

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

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

(b) Each Tract as to which Working Interest Owners owning one hundred per cent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning less than seventy-five per cent (75%) of the Royalty Interest have become parties to this agreement, and as to which (a) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, as to which (b) seventy-five per cent (75%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 14(a) have voted in favor of the inclusion of such Tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred per cent (100%) of the Working Interest having become parties to this agreement regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have tendered or executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties to this

agreement and which arise out of the inclusion of the Tract in the Unit Area; and as to which (b) seventy-five per cent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Sections 14(a) and 14(b) have voted in favor of the inclusion of such Tract and to accept the indemnifying agreement. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributed to the non-subscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

14.1 Revision of Exhibits. If any of the Tracts described in original Exhibit "B" fail to qualify for inclusion in the Unit Area, Unit Operator shall recompute, using the original basis of computation, the Tract Participation of each of the qualifying Tracts and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the effective date hereof and upon approval by the Commissioner.

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

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

If the participation of any Oil and Gas Rights in Unitized Substances depends on the average production per well or the average pipeline runs per well on any Tract for any specified period, such average per-well production or such average per-well pipeline runs shall be determined from and after the effective date hereof by dividing the production of Unitized Substances allocated to such Tract by the number of wells located thereon which are completed in the Unitized Formation as of the effective date hereof plus the number of wells thereafter completed therein that are capable of producing Unitized Substances.

15.2 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose,

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

15.3 Failure to Take in Kind. If any party fails to take in kind or separately dispose of its share of Unitized Substances Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Unitized Substances; provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to a payee who shall distribute such proceeds to the parties entitled thereto, such payee being the Working Interest Owners of each affected Tract or a party designated by such Working Interest Owners under an agreement between such party and such Working Interest Owners. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

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

If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner, part or all such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Commissioner.

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

15.6 Royalty Payments. No royalty, overriding royalty, production, or other payments shall be payable upon, or with respect to, Unitized Substances used or consumed in Unit Operations, or which otherwise may

be lost or consumed in the production, handling, treating, transportation, or storing of Unitized Substances.

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

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

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

18. RENTAL SETTLEMENT. Rentals due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations; provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico.

19. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted so as to provide for the most economical and efficient recovery of such substances to prevent waste as defined by State laws or regulations.

20. DRAINAGE. Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from the committed Tract by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

21. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons in and under lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and

the parties hereto hereby consent that the Commissioner as to State leases, by his approval hereof or by the approval by his duly authorized representative, does hereby establish, alter, change or revoke, the drilling, producing, rental, minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract committed to this agreement, regardless of whether there is any development of any particular part of or Tract of unitized land, notwithstanding anything to the contrary in any lease, operating agreement, or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Commissioners shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized land.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this agreement shall continue in force beyond the terms provided therein as to the lands committed hereto until the termination hereof.

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to the portion committed and that portion not committed, and the terms of such lease shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area), (i) if and for so long as oil or gas is capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement; or (ii) if and for so long as some part of the lands embraced in such State lease are allocated Unitized Substances.

22. COVENANTS RUN WITH LAND. This agreement shall extend to, be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

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

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

23. EFFECTIVE DATE AND TERM. This agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto, and unless sooner terminated as provided in Section 23.1 shall become effective as to qualified Tracts at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Eddy County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 14 and the book and page in which a counterpart of this agreement has been recorded. The certificate shall not be filed until after the following requirements have been met:

(a) Tracts comprising seventy-five per cent (75%) or more of the Unit Area as shown on the original Exhibit "A" have qualified under the provisions of Article 14.

(b) At least one counterpart of this agreement has been filed for record by Unit Operator in Eddy County, New Mexico.

(c) This agreement has been approved by the Oil Conservation Commission of the State of New Mexico.

(d) This agreement has been approved by the Commissioner of Public Lands of the State of New Mexico.

23.1 Ipso Facto Termination. If the requirements above are not accomplished on or before March 1, 1974, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Participation of at least seventy-five per cent (75%) have become parties to this agreement and at least seventy per cent (70%) of the combined voting interests of such signatory parties have decided to extend the

termination date for a period not to exceed twelve (12) months. If the termination date is so extended and the above requirements are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect.

23.2 Term. The term of this agreement shall be for the time that Unitized Substances are produced in paying quantities and as long thereafter as Unit Operations are conducted without a cessation of more than sixty (60) consecutive days unless sooner terminated by Working Interest Owners in the manner herein provided.

23.3 Termination by Working Interest Owners. This agreement may be terminated with approval of the Land Commissioner by Working Interest Owners having a combined Unit Participation of at least eighty per cent (80%), as shown in Exhibit "C" attached to the Unit Operating Agreement, whenever such Working Interest Owners determine that Unit Operations are no longer profitable or feasible and Unit Operator shall file an affidavit stating such fact and the date thereof in the records of Eddy County, New Mexico.

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

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

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

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

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

27. UNAVOIDABLE DELAY. All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by federal, state, or municipal laws, by any rule, regulation, or order of a governmental agency; by inability

to secure materials; or by any other cause or causes beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this article.

28. LOSS OF TITLE. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 14 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area effective as of the first day of the calendar month in which the failure of title is finally determined; however, the Tract shall not be removed from the Unit Area if within ninety (90) days of the date of final determination of the failure of title the Tract requalifies under a Section of Article 14.

28.1 Revision of Exhibits. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 13.1, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

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

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

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

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

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

(c) notwithstanding any provisions contained herein to the contrary, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

29. NONJOINDER AND SUBSEQUENT JOINDER. After the effective date of this agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest and upon approval by the Commissioner.

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

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

30.2 Commitment of State Lands by Lessee of Record. No lease or portion thereof embracing lands of the State of New Mexico shall be committed hereto unless the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof has been signed by the lessee of record who, for the purposes of this provision, shall be the original lessee or the assignee whose assignment was last approved by the Commissioner as shown by the records in the State Land Office.

31. TAXES. The owners of (1) the surface rights of lands within the Unit Area, (2) the severed mineral or Royalty Interests in the land, and (3) the improvements located on the lands not utilized for Unit Operations shall individually be responsible for the rendition and assessment for ad valorem tax purposes of all such property and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner. If any ad valorem taxes are not paid by such Owner responsible therefor when due, Unit Operator may, with approval of Working Interest Owners, at any time prior to tax sale, or expiration of period of redemption after tax sale, pay the same, redeem such property and discharge such tax liens as may arise through nonpayment. Any such payment shall be treated as an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due to any delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to the joint account. Such withholding shall be without prejudice to any other remedy, either at law or in equity, which may be available for exercise by the Unit Operator or by the Working Interest Owners.

32. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners or any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator, Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of the failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject, in any case, to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

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

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

34. BORDER AGREEMENTS. Subject to the approval of the Commissioner, the Unit Operator, with concurrence of sixty-five per cent (65%) of the then Voting Interests of the Working Interest Owners, may enter into a border protection agreement or agreements with the working interest owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interest.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the date first above written and have set opposite their respective names the date of execution and the address of each of the respective executing parties.

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

DEPCO, INC.

Assistant Secretary

By _____

DATE: _____

1025 Petroleum Club Building
Denver, Colorado 80202

ATTEST:

YATES PETROLEUM CORPORATION

Secretary

By _____

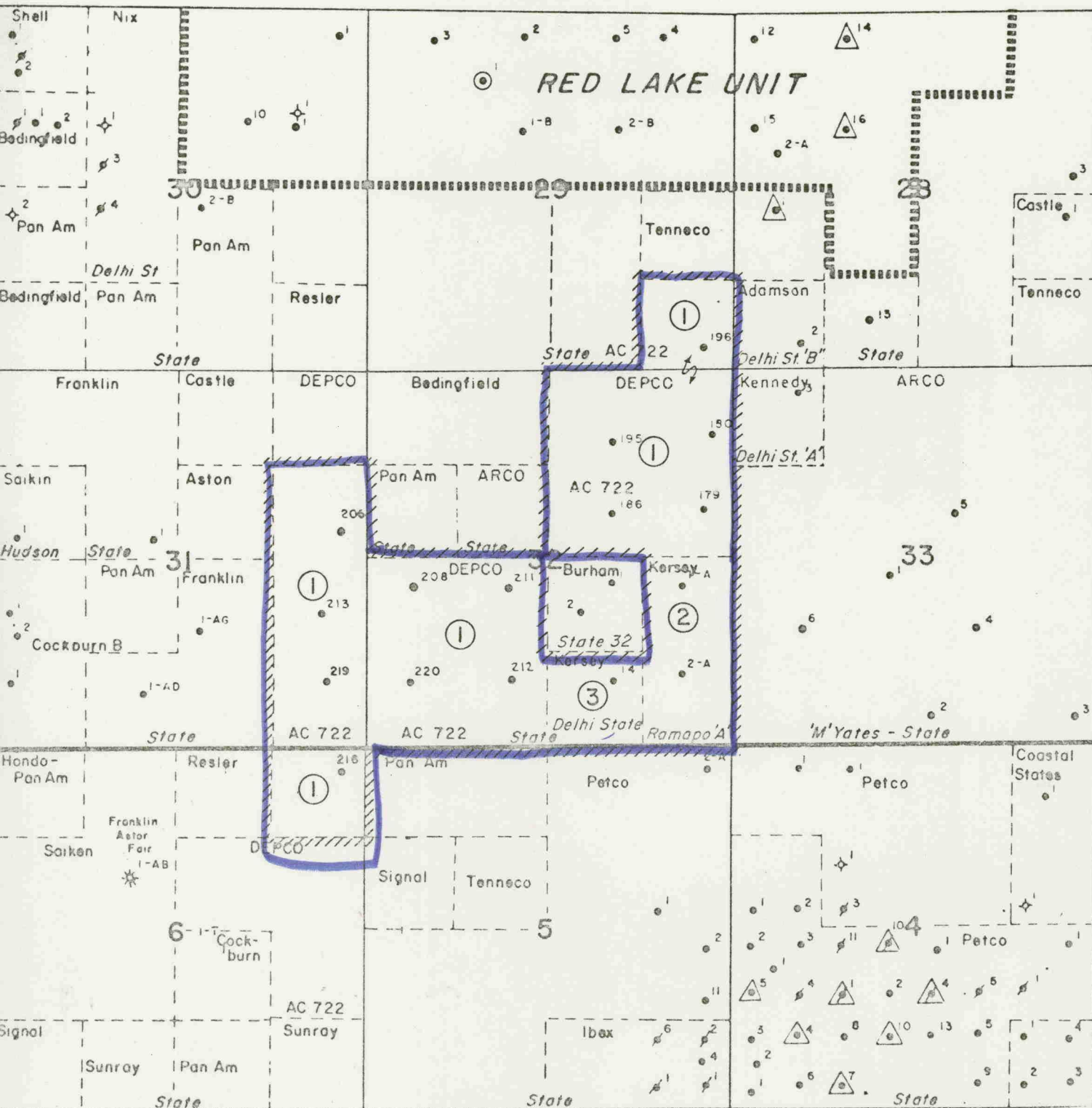
DATE: _____

ATTEST: _____
Secretary

By _____

DATE: _____

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EXHIBIT "A"

TO

UNIT AGREEMENT

NORTHWEST ARTESIA UNIT
EDDY COUNTY, NEW MEXICO



LEGEND

UNIT BOUNDARY

UNIT TRACT NUMBER

EXHIBIT "B"

Schedule Showing Tract Numbers, Ownership, and Participation
Northwest Artesia Unit, Eddy County, New Mexico

ACT O.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION	LESSEE OF RECORD	OVERRIDING ROYALTY OR PRODUCTION PAYMENT AND PERCENTAGE	OWNER AND PERCENTAGE	PERCENTAGE OF UNIT PARTICIPATION
1	T-17-S, R-28-E	520.17	647-368 HBP	DEPCO, Inc. & Husky Oil Co. 46/144 Int. Yates Pet. Corp. 26/144 Int. Hondo Oil & Gas Co. 72/144 Int.	Hondo Oil Co. - Overriding	DEPCO, Inc.	25.44115
	Royalty 3.1250%. This over-				Husky Oil Co.	25.44115	
	ride is to be borne by:				Yates Pet. Co.	26.24459	
	Yates Pet. Corp. - 23/144 of					77.12689	
	1/16 or .99826%;						
Sec. 29: SESE					DEPCO, Inc. - 24.5/144 of 1/16		
Sec. 31: SENE; E/2SE½					or 1.06337%;		
Sec. 32: NE½, SW½					Husky Oil Co. - 24.5/144 or 1/16		
T-18-S, R-28-E					or 1.06337%.		
Sec. 6: Lot 1					Yates Brothers, a partnership -		
					1/8 of 49/144 (4.253572%) borne		
					solely out of Yates Pet. Corp.		
					interest.		
T-17-S, R-28-E					Calaro Corporation - 4.45313	Harold Kersey	4.80757
Sec. 32: E/2 SE½		80.0	B-2071-14 HBP	Amoco Prod. Co.	Forest E. Levers - 1.5625	Edward C.	
					Everett R. Jones, Jr. - 0.11719	Donohue Est.	2.40378
					Sherman Nelson - 0.05859	Wilma C.	
					Jon J. Nelson - 0.05860	Donohue Est.	2.40379
						Kathryn Kersey	2.40379
						Marie Kersey	2.40379
						Anna A.	
						Reischman	2.40379
						Eugene E.	
						Nearburg	1.73794
						Ben A.	
						Copass, Jr.	0.42547
						Joe A. Warren	0.24037
							19.23029

EXHIBIT "B" CONTINUED

Northwest Arestia Unit, Eddy County, New Mexico

TRACT NO.	DESCRIPTION OF LAND	NO. OF ACRES	LEASE NO. AND EXPIRATION	LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST OWNER AND PERCENTAGE	PERCENTAGE OF UNIT PARTICIPATION
					PRODUCTION PAYMENT AND PERCENTAGE			
3	T-17-S, R-28-E Sec. 32: SWSE	40.0	B-11538-7, HBP	Continental Oil Co. Tenneco Oil Co.	Tenneco Oil Co. - 2.734375 Continental Oil Co.-2.734375		Same as Tract 2	0.91071 0.45535 0.45535 0.45535 0.45535 0.45535 0.32922 0.08060 0.04554 <u>3.64282</u>

UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTHWEST ARTESIA UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

Index

Preamble

Agreement Proper

Unit Participation Exhibit "C"
Accounting Procedure Exhibit "D"
Insurance Provisions Exhibit "E"

BEFORE EXAMINED NOTAR
CLERK OF DISTRICT COURT
Applicant <u>UNITED</u> <u>7</u>
CASE NO. <u>5144 - 5161</u>

UNIT OPERATING AGREEMENT
NORTHWEST ARTESIA UNIT
EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

NORTHWEST ARTESIA UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT entered into as of _____, 1973, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

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

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

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2
EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

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

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

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

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well in the Unit Area, or the use of any well for injection or other purposes, except for well servicing or stimulation work on the existing completion interval not exceeding Unit Operator's authority for single expenditures.

3.2.4 Expenditures The making of any single expenditure in excess of ten thousand dollars (\$10,000.00); provided that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment The selling or otherwise disposing of any major item of surplus Unit Equipment if the current list price of new equipment similar thereto is three thousand five hundred dollars (\$3,500.00) or more.

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

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

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

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

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

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

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

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

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

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation which is in effect at the time the vote is taken.

4.3.2 Vote Required - Generally Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty percent (60%) or more voting interest; provided that should any one Working Interest Owner have more than sixty percent (60%) voting interest, its vote must be supported by the vote of one or more Working Interest Owners having a combined voting interest of at least five percent (5%); provided, however, that if any Working Interest Owner has a voting interest of forty percent (40%) or more, its negative vote, or failure to vote, shall not serve to disapprove any motion unless such vote is supported by the vote of one or more Working Interest Owners having a combined voting interest of at least five percent (5%), and such affirmative vote shall be binding upon all parties.

4.3.3. Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

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

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

ARTICLE 6
UNIT OPERATOR

6.1 Initial Unit Operator. Depco, Inc. is hereby designated as initial Unit Operator.

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

ARTICLE 7
AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners as promptly as possible the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment under terms and conditions approved by Working Interest Owners.

ARTICLE 8 TAXES

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

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

ARTICLE 9 INSURANCE

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

9.1.2 Carry Workmen's Compensation Insurance in compliance with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employers' Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit E.

ARTICLE 10 ADJUSTMENTS OF INVESTMENTS

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

10.1.1 Wells All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall make such determination as soon as practicable after the effective date hereof and all of such property that is determined to be surplus shall be returned to the Working Interest Owners who delivered same to Unit Operator; provided, however, that Unit Operator shall have the right to retain and use free of charge in conducting Unit Operations any of such surplus property for a period not to exceed one (1) year after the effective date hereof. Property determined by Working Interest Owners to be surplus shall not be considered to have been taken over under this agreement.

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, as soon as feasible after the effective date, at Unit Expense, inventory and evaluate, in accordance with the provisions of Exhibit D, the personal property taken over under Section 10.1.2, except that casing shall be given no value. Such inventories shall include and be limited to those items of equipment indicated to be controllable in the 1960 edition of the "Materials Classification Manual" prepared by the Petroleum Accountants Society of Oklahoma, except that sucker rods, Kobe tubing of sizes less than two inches (2"), and other items as agreed upon by the Working Interest Owners may be included on the inventories in order to insure a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area that are required in Unit Operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Immediately following completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced in accordance with the provisions of Section IV, paragraph 2 of Exhibit D, Accounting Procedure, or at an appraised value as determined by the Working Interest Owners, which pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with other Working Interest Owners furnishing such additional pricing help as may be available and necessary.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property taken over by Unit Operator under Section 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit Participation, as shown on Exhibit C. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above. No investment adjustment shall be made with respect to the casing taken over under Section 10.1.1.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the Owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

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

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation at the time the expense was incurred. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

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

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

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

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

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

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners in proportion to their respective Unit Participations then in effect; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12 NON-UNITIZED FORMATIONS

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

ARTICLE 13 TITLES

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

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

ARTICLE 14 LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of two thousand five hundred dollars (\$2,500.) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15 INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. 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 regulation 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 the data required by Federal Regulations 1.761-1 (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 notice or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the 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.

ARTICLE 16
NOTICES

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

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees in proportion to their respective Unit Participations then in effect. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment the fair salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred. Notwithstanding anything hereinabove set forth in this section, a Working Interest Owner may not withdraw from this agreement by conveying, assigning, and transferring its interest if said Working Interest Owner's interest is burdened by any royalties, overriding royalties, or other burdens in excess of the one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept said interest subject to the royalties, overriding royalties, or other burdens in excess of one-eighth (1/8) lessor's royalty then existing and burdening said interest. Nothing in this Article, is intended in any way to restrict a Working Interest Owners right to convey its property to any third party; such conveyance, however, to be subject to the terms, covenants, and conditions of the Unit Agreement and Unit Operating Agreement.

ARTICLE 18
INTEREST CARVED OUT BY WORKING INTEREST OWNER

18.1 Carved-Out Interest Subject to This Agreement. In the event any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, net profits, carried interest, or any other interest out of its Working Interest then subject to this agreement, such carved-out interest shall be subject to the terms and provisions of this agreement specifically including, but without limitation, Section 11.5 hereof entitled "lien of Unit Operator". In the event the Working Interest Owner creating such carved-out interest (a) fails to pay any costs or expenses chargeable to such Working Interest Owner under this Agreement and the production of Unitized Substances accruing to the credit of such Working Interest is insufficient for that purpose or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all costs and expenses incurred hereunder the same as though such carved-out interest were a Working Interest and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in said Section 11.5 for the purpose of collecting the costs and expenses chargeable to said carved-out interest.

ARTICLE 19
ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 20
EFFECTIVE DATE AND TERM

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

20.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 19, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 21
ABANDONMENT OF OPERATIONS

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

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

21.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

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

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

ARTICLE 22
EXECUTION

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

ARTICLE 23
SUCCESSORS AND ASSIGNS

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

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

WORKING INTEREST OWNERS

ATTEST:

DEPCO, INC.

Assistant Secretary

By: _____

DATE: _____

1025 Petroleum Club Building
Denver, Colorado 80202

ATTEST:

YATES PETROLEUM CORPORATION

Secretary

By: _____

DATE: _____

Secretary

By: _____

DATE: _____

EXHIBIT "C"

ATTACHED TO UNIT OPERATING AGREEMENT NORTHWEST ARTESIA UNIT EDDY COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>WORKING INTEREST OWNER</u>	<u>WORKING INTEREST IN TRACT (%)</u>	<u>PERCENTAGE UNIT PARTICIPATION</u>
1	Depco, Inc.	32.9861	25.44115
	Husky Oil Company	32.9861	25.44115
	Yates Petroleum Corporation	34.0278	26.24459
			<u>77.12689</u>
2	Harold Kersey	25.0000	4.80757
	Edward C. Donohue Estate	12.5000	2.40378
	Wilma C. Donohue Estate	12.5000	2.40379
	Kathryn Kersey	12.5000	2.40379
	Marie Kersey	12.5000	2.40379
	Anna A. Reischman	12.5000	2.40379
	Eugene E. Nearburg	9.0375	1.73794
	Ben A. Copass, Jr.	2.2125	0.42547
	Joe A. Warren	1.2500	0.24037
			<u>19.23029</u>
3	Same as Tract 2	Same as Tract 2	0.91071
			0.45535
			0.45535
			0.45535
			0.45535
			0.45535
			0.32922
			0.08060
			0.04554
			<u>3.64282</u>

EXHIBIT " D "

Attached to and made a part of Unit Operating Agreement
NORTHWEST ARTESIA UNIT
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.

C. Operator's Warehouse Operating and Maintenance Expense

- [] Included in district expense
 [] No charge either direct or indirect
 [] Percentage basis (describe fully)

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

Well Depth	RATE PER WELL PER MONTH			
	DRILLING WELL RATE (Use Total Depth) Each Well	First Five	PRODUCING WELL RATE (Use Current Producing Depth) Next Five	All Wells Over Ten
All	\$285.00	\$43.00	\$43.00	\$43.00

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. 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.

B. 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.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

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

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflood-ing operations and salt water disposal wells shall be considered the same as producing oil wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allow-able production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately pro-ducing horizon, providing each completion is considered a separate well by governmental or other state-wide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

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

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 of this Section III, Development shall include all costs in connection with drilling, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when well is not completed as a producer; and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in 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, 3 % of total cost.
- C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % 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 drilling wells shall be excluded.

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"

Attached to and made a part of the Unit Operating Agreement

NORTHWEST ARTESIA UNIT
EDDY COUNTY, NEW MEXICO

INSURANCE

Operator shall, at the joint expense of the parties hereto, at all times while operations are conducted hereunder, provide with responsible insurance companies, insurance as follows:

- a. Workmen's Compensation Insurance in accordance with the laws of the state in which the operating area is located, and Employers' Liability Insurance with limits of not less than \$100,000;
- b. Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000 as to any one person and \$300,000 as to any one accident; and Property Damage Liability Insurance with limits of not less than \$100,000 as to any one accident; and
- c. Automobile Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000 as to any one person and \$300,000 as to any one accident; also, Automobile Public Liability Insurance with respect to Property Damage with limits of not less than \$100,000 as to any one accident.

Operator shall not provide, for the joint account of the parties hereto, insurance against the hazards of fire, wind-storm, explosion, blowout, cratering, reservoir damage, or insurance other than that specified above.

Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.