



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

August 6, 1980

Mr. Clarence Hinkle
Hinkle, Cox, Eaton, Coffield
& Hensley
Attorneys at Law
Post Office Box 10
Roswell, New Mexico

Re: CASE NO. 6069
ORDER NO. R-5593-C

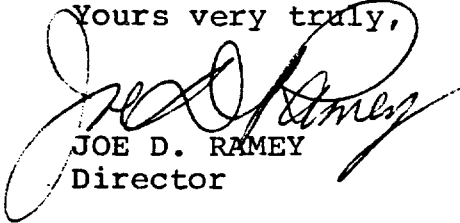
Applicant:

~~Atlantic Richfield Company~~

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Commission order recently entered in the subject case.

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC _____ x
Artesia OCC _____ x
Aztec OCC _____

Other Becker, Kelly, Thomas Kellahin, H. I. Kendrick, Glenn
Emerick, Bruce Landis

AtlanticRichfieldCompany * North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631



June 9, 1977

Royalty Interest Owners
East Drinkard and
East Blinebry Units
Lea County, New Mexico

Please attach the enclosed replacement pages to the East Drinkard and East Blinebry Unit Agreements furnished to you by cover letter dated June 1, 1977.

Thank you for your continued assistance.

Very truly yours,

Karyn Zimmerman
Land Department

KZ:lh

Enclosures

J. R. CONE
1423 NORTH AVENUE P
P. O. BOX 871
LUBBOCK, TEXAS 79408

July 6, 1977

State of New Mexico
Oil Conservation Commission
P.O. Box 2098
Santa Fe, New Mexico 87501

Attention: Mr. Joe D. Ramey

Re: Atlantic Richfield Company
Application for Unitization
Lea County, New Mexico
Case #5997, 5998, 5999, & 6000

Gentlemen:

Under date of June 27, 1977, Atlantic Richfield Company notified us of their application to the Commission for Unitization and Water Flood operation in their proposed East Blinbry and East Drinkard Units, T21S, R37E, Lea County, New Mexico.

We own interest in and are operator of the Cone et al Eubanks lease which occupies the SW/4, Section 14, T21S, R37E, Lea County, which is proposed by Atlantic to become Tract 13 to the proposed units.

The proposed Tract 13 contains four wells either completed in and/or capable of production from Blinbry, Tubb, Drinkard, and Wichita Albany (Abo) formations underlying that tract.

The unit and unit operating agreements for which Atlantic has asked approval provide for unitization of the Blinbry and Drinkard formations as defined by the Commission excluding both Tubb and Wichita Albany (Abo) formations therefrom. On page 17, paragraph 11.1 of each of the Blinbry and Drinkard Unit Operating Agreements, a provision is made for delivery of well bores for each tract to the proposed units.

In the above set out paragraph, a provision is made whereby each 40 acre tract included in the Units is required to deliver to the Unit a useable well located thereon. In the event such a well is not so delivered to the Unit an economic penalty is provided whereby the Working Interest

Owners of each 40 acre tract not contributing a useable well are to be penalized to an extent up to and including \$200,000.

As operator of the proposed Tract 13 to the units, the well bore delivery provision will result in either (1) the loss of present well bore availability to productive Tubb and Abo reserves or (2) an economic penalty up to and including the sum of \$800,000. There is no provision in the Unit Agreement whereby the proposed operator of the Unit or its Working Interest Owners are required in any way to compensate the tract owners for loss of well bore accessibility to formations not included in the unit and which are either productive or potentially productive from the well bore.

As operator of the proposed Tract 13 to the Unit for which approval has been requested, we offer the following in support of our objection to this Unit.

Our Eubanks #2 well located in Unit L, Section 14, T21S, R37E, is productive from Blinebry, Tubb, and Drinkard, and is presently completed in and producing from Blinebry and Tubb. During 1976, this well produced 114,713 Mcf gas and 1,447 barrels of condensate from the Tubb. According to the Engineering Subcommittee determination this zone has a remaining reserve of some 1,450,000 Mcf gas. The loss of the productivity from this horizon and its reserve to us will be a severe economic hardship, if such is allowed by the proposed Atlantic Units whereby this well must be delivered to the Unit.

Our Eubanks #3 well located in Unit K, Section 14, T21S, R37E, is presently productive from Blinebry and Drinkard. Early in the history of this well it was completed in the Wichita Albany (Abo) and produced 15,027 barrels of oil before being recompleted from the Abo to the Drinkard for the purpose of drainage protection. This well is known to offer substantial Abo reserve which will be denied the owners, thereof, if the well is given to the Unit.

Our Eubanks #4 well is productive from the Blinebry and Drinkard, but during initial test and completion was tested at the rate of some 50 barrels of oil per day from the Wichita Albany (Abo) indicating potential economic reserves from that horizon.

It is evident from the foregoing that if the Unit and Unit Operating Agreements for which approval is asked are allowed

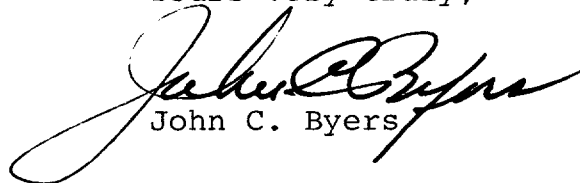
to become effective, the mineral interest owners to the Cone et al Eubanks lease will be subjected to confiscation of valuable property without compensation for the benefit of the interest asking approval of such Units.

The foregoing sets out only one of several objections we have to the proposed Unit and its associated plan of operations. Others include in general:

1. No provisions are set out to justify the arbitrary commingled production allocations as between the proposed Blinbry and Drinkard Units.
2. No provision is offered to provide protection against loss of injected fluids into horizons not included in the Unit and the potential damage that may result from such loss.
3. In so far as the Cone Eubanks lease is concerned, present economic levels of production do not justify the risk of development of a secondary recovery program without further proof that such methods are applicable to the reservoirs being unitized.

In view of the foregoing, we plan to appear at the hearing set for the application of Atlantic in these causes and to offer our objection, along with supporting evidence at that time. Your review and consideration of our position in this case is appreciated.

Yours very truly,



John C. Byers

JCB/bp

cc: Jason Callahan
Raymond Cone
Jack Markham

AtlanticRichfieldCompany * North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631

~~Case 5757~~



June 9, 1977

Working Interest Owners
East Drinkard and
East Blinebry Units
Lea County, New Mexico

Please attach the enclosed replacement pages to the East Blinebry and East Drinkard Unit and Unit Operating Agreements furnished to you by cover letter dated June 1, 1977.

Thank you for your continued assistance.

Very truly yours,

Karyn Zimmerman

Karyn Zimmerman
Land Department

KZ:lh

Enclosures

~~Case 5487~~

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

CLARENCE E. HINKLE
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.

JAMES H. BOZARTH
JAMES H. ISBELL
DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
J. DOUGLAS FOSTER

600 HINKLE BUILDING

POST OFFICE BOX 10

ROSWELL, NEW MEXICO 88201

June 28, 1977

W. E. BONDURANT, JR. (914-1973)

TELEPHONE (505) 622-6510

MR. ISBELL LICENSED
IN TEXAS ONLY

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) 683-4691

Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

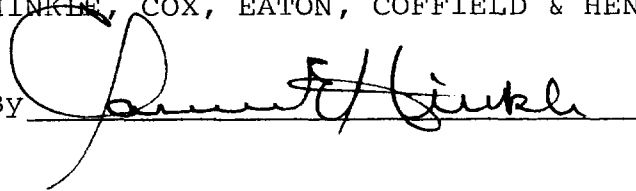
On June 21 we mailed to you two applications for statutory unitization of the East Blinebry and East Drinkard Units and two applications for waterflood projects in connection with the same. Atlantic Richfield Company has now brought us the exhibits which were not filed with the original applications and we enclose the following:

1. Three copies of the East Blinebry Unit and Operating Agreement, which are under the same cover.
2. Three copies of the East Drinkard Unit and Operating Agreement, which are under the same cover.
3. Electric logs of the proposed injection wells for the Blinebry Unit waterflood.
4. Electric logs of the proposed injection wells for the Drinkard Unit waterflood.
5. Two files containing the diagrammatic sketches of the wells in the East Blinebry waterflood.
6. Two files containing the diagrammatic sketches of the wells in the East Drinkard waterflood.

Yours very truly,

HINKLE, COX, EATON, COFFIELD & HENSLEY

By



CEH:cs
Enc.



J. M. Brown
Division Engineering
Manager

Amoco Production Company

500 Jefferson Building
P.O. Box 3092
Houston, Texas 77001

JUL 18 1977
OIL CONSERVATION COMMISSION
SANTA FE

July 14, 1977

File: BAL-416-3111

Re: Proposed E. Blinebry and E. Drinkard Units
Lea County, New Mexico

*Case File
RJH*

Oil Conservation Commission
State of New Mexico
310 Old Santa Fe Trail
Santa Fe, NM 87501

Gentlemen:

The application of Atlantic Richfield Company for statutory unitization and waterflooding of the E. Blinebry and E. Drinkard Areas, Lea County, New Mexico, has been designated as Cases 5997 through 6000 on the hearing docket for July 20, 1977.

This will advise that Amoco Production Company has signed the Unit Agreements and the Unit Operating Agreements for these projects. Amoco supports the application of Atlantic Richfield Company for statutory unitization and joins in urging approval by the Commission for this pending waterflood operation to achieve additional secondary oil recovery.

Yours very truly,

J M Brown

ROC/paj
4/670

cc: Mr. J. L. Tweed
Atlantic Richfield Company
P. O. Box 1610
Midland, TX 79701



Chevron U.S.A. Inc.
P.O. Box 599, Denver, CO 80201

July 12, 1977

RECEIVED
JUL 15 1977
NEW MEXICO
STATE LAND OFFICE
SANTA FE, NM

New Mexico Oil Conservation Commission
P. O. Box 2088
State Land Office Bldg.
Santa Fe, NM 87501

Attention Mr. Richard L. Stamets

Gentlemen:

Chevron U.S.A. Inc. supports Atlantic Richfield Company in the proposals to be presented in Case Nos. 5997 5998, 5999 and 6000 scheduled for July 20, 1977.

Atlantic Richfield Company will propose the formation of the East Drinkard Unit area and the East Blinebry Unit area and the initiation of waterflood projects thereon. Chevron U.S.A. Inc. will be a working interest owner in the proposed units.

Yours very truly,

G. M. Emerick
Senior Staff Engineer-Proration

GME:j1

cc: Mr. E. E. Hagan

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

600 HINKLE BUILDING

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ROSWELL, NEW MEXICO 88201

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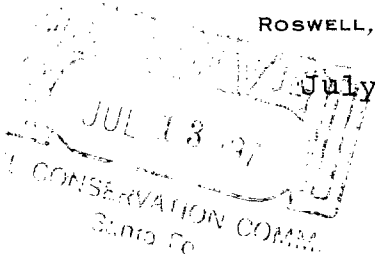
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TELEPHONE (505) 622-6510

MR. ISBELL LICENSED
IN TEXAS ONLY

MIDLAND, TEXAS OFFICE
521 MIDLAND TOWER
(915) 663-4691

July 12, 1977



Oil Conservation Commission
Box 2088
Santa Fe, New Mexico 87501

File

Re: Cases 5997 5998, 5999, 6000
Examiner's docket July 20

Gentlemen:

Our client, Atlantic Richfield Company, has requested that we ask for a continuance of the above cases which are on the examiner's docket for July 20 to the second examiner's hearing in September, which I assume will be on the 21st.

The reason for the continuance is that additional time is needed within which to get some of the parties to consent to or ratify the unit agreements.

You may consider this as a motion for continuance of the above cases to the above mentioned date.

Cases 5997 and 5999 are for approval of unit agreements for the East Drinkard and East Blinebry Units. These applications were made under the provisions of the Statutory Unitization Act and we note in the publication the Act was not referred to. We do not know whether it is necessary to refer to the fact that these applications are made under this act but call your attention to this so that if you consider it material in the re-publication as to the continued date this may be included.

Yours very truly,

HINKLE, COX, EATON, COFFIELD & HENSLEY

BY

Clarence Hinkle

CEH:cs

cc: Mr. Duncan Holt
cc: Mr. R. E. Powers
cc: Mr. Bob Malaise
cc: M.. Bill Coleman

North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631



November 16, 1977

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

Attn: Mr. Stamets

Re: East Blinebry and East Drinkard Units
Statutory Unitization Hearing

Dear Mr. Stamets:

Concerning the subject hearing and our subsequent telephone conversation, several questions were raised with regards to delineation of cement tops on all of the diagrammatic wellbore diagrams. Attached are corrected copies of those wellbore exhibits which did not have the cement tops shown at the original hearing.

In calculating cement tops, slurry data for Class A and Class C cement was used if not specified otherwise. In most cases a 25% wash-out factor was applied to the cement top calculation.

Example: Use of Slurry Volume

3000 ft. depth, 5½" casing, 7-7/8" hole. Estimated 25% washout, 100 sx Class A behind casing

Cement footage = $100 \text{ sx} / .1733 \text{ cu ft/ft} \times 1.25 \text{ excess factor} \times .72 \text{ sx/cu ft} = 641'$

Cement top = $3000' - 641' = 2359'$

In addition to the cement tops, certain other information is being supplied as requested; specifically, the revised exhibits reflect the following:

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico
November 16, 1977
Page 2

- 1) Exhibit No. 132 Three cement plugs, spotted at 110-140',
25 sx; at 1100', 25 sx plug; and at 2800',
25 sx plug.
- 2) Exhibit No. 138 The current PBD is 7400'. San Andres
perforations at 4165-4477'.
- 3) Exhibit No. 150 The perforations below the bridge plug
are Drinkard, 6625-6760' and McKee, 7905-8250'.
- 4) Exhibit No. 152 The two cement plugs are from 100' to
surface (30 sx) and from 2870-2912 (15 sx).
- 5) Exhibit No. 157 The Wantz Abo perforations are at
6932-7452' and the McKee perforations
are at 7627-7941',
- 6) Exhibit No. 165 The Ellenburger perforations are at
7828-44'.
- 7) Exhibit No. 183 The Penn perforations are at 7185-7390'.
- 8) Exhibit No. 184 The Paddock and McKee perforations are
separated with a CIBP at 7500' with one
sack of cement on top.
- 9) Exhibit No. 243 The Blinbry perforations at 5745-5827'
were squeezed w/150 sx Class C cement.

Very truly yours,


R. M. Malaise

RMM/agp

cc: Mr. William Coleman - Midland (w/o attachment)
Mr. Clarence Hinkle - Roswell (w/attachment)



October 4, 1976

Summit Energy, Inc.

ATTN: Mr. J. L. Hobbs
Attn: Mr. J. L. Hobbs
Attn: Mr. J. L. Hobbs

Atlantic Richfield Co.
Permian District
P.O. Box 1610
Midland, Texas 79701

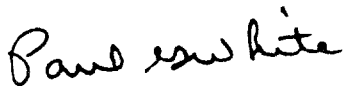
Re: Proposed East Blinbry
East Drinkard Units

Gentlemen:

After careful study of the parameters and data as compiled by Atlantic Richfield Co., it is the decision of Summit Energy, Inc., to not join in the unitization plan.

However, we want to emphasize that we will cooperate and support the necessary water injection pattern. Summit will work out an equitable agreement with the unit operator in order to inject water into the Gulf Basin No. 2 well.

Sincerely yours,



Paul G. White
Vice President-Production

PGW/gb

cc: NMOCC-Hobbs
NMOCC-Sante Fe

January 13, 1976

State of New Mexico
Oil Conservation Commission
P. O. Box 1980
Hobbs, New Mexico 88240

Gentlemen:

Summit Energy, Inc., has notified Atlantic Richfield Company that Summit Energy, Inc., does not wish to participate nor join the proposed Blinbry Unit in Lea County, New Mexico. This letter to Atlantic was dated November 7, 1975. We have received no response from Atlantic.

Summit Energy, Inc., operates and owns the Gulf Bunin Lease located in the N/2 of the N/2 of Section 13-T21S-R37E, Lea County, New Mexico.

The formulae that have been submitted to the point in the Working Interest Owners Meeting in no way awards Summit with an equitable parameter.

In our letter to Atlantic, please note that we wish to fully cooperate and will, in fact, equip the proper injection well and inject water at pressures and rates compatible with the unit.

We are writing this letter for two reasons. One, we have not received any answer from Atlantic Richfield, Inc. Secondly, we want to head off any attempt by Atlantic to enforce Statutory Pooling.

Sincerely yours,

Paul G. White
Vice President-Production

with:
M.
Kalausa

November 7, 1975

Atlantic Richfield Company
Permian District
P. O. Box 1610
Midland, Texas 79701

Attn: Mr. J. L. Tweed

Re: Proposed Blinebry Unit

Dear Mr. Tweed:

While Summit Energy, Inc., does not desire to submit a participation formula at the present time, we do feel strongly that a Phase I formula has to incorporate Parameter 3, Parameter 5 and particularly Parameter 10.

In fact, Summit at the present time would like to withdraw from unit participation. We would like to cooperate in the event that the unit operation becomes a reality. We will convert our Gulf Bunin No. 2 well to injection as per the proposed pattern and inject equivalent amounts of water as soon as the unit is in operation.

Sincerely yours,

Paul G. White
Vice President-Production

PGW/gs



Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

PROPOSED EAST BLINEBRY
UNIT AND EAST DRINKARD UNIT

EXHIBIT II

Letters requesting that Atlantic Richfield Co. consider
Summit Energy, Inc.'s requests.

July 18, 1977

Summit Energy, Inc.

Addressee List Attached

Re: East Blinebry and East Drinkard Units
Lea County, New Mexico

Gentlemen:

Summit Energy, Inc., operator of the Gulf Bunin Lease in the proposed unit area, would like to request that all unsigned parties on the subject unit, have an independent engineering appraisal made on your equity, prior to joining any unit operation.

We would like to point out certain observations and pass on certain comments about the proposed secondary operation.

1. If you have equity in a Tubb Gas Zone or Abo Oil Zone and this is produced through a common bore hole and casing, are you aware of the affect to these pay sections when Blinebry or Drinkard work-overs are in progress?
2. As response occurs in the Blinebry Oil Zone or Drinkard Oil Zone, any inequity or damage to your Tubb or Abo Reserves will be completely masked and untrackable.
3. Why was not a pilot operation performed on specific ARCO properties prior to a request for total unit-ization of the field?
4. Do you think a Secondary Recovery Operation is timed well when operators still have leases which are producing \$ 5,000 per well net income? What if the FEA releases all stripper crude to float on the World market but excludes secondary reserves, even if your base lease was a stripper lease?

Summit Energy, Inc.

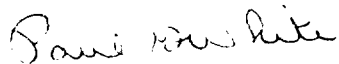
Page 2
July 18, 1977

5. Summit has letters on file where we requested a co-operative agreement with ARCO in the event of waterflooding. We only want to operate our own property. We do not feel that this could possibly create the necessity of "force pooling". ARCO has refused to respond on this so it is our opinion that it becomes confiscation of property and not force pooling.

Atlantic Richfield Company has called for a hearing on the force pooling of all outstanding unsigned equities. The hearing has been postponed until September, 1977. I assume that the hearing has been delayed because Atlantic Richfield Company does not yet have the necessary percentage of working interests signed to the unit agreement. It would be a strange affair indeed to have a "force pooling" hearing before the New Mexico Oil Conservation Commission and not be able to provide the necessary signatures for unitization.

We would suggest that you be fully aware of the economics and the mechanical complexities of this proposed unit before you join.

Yours truly,



Paul G. White
Vice President-Production

PGW/gb

cc: All Working Interests
NMOCC - Hobbs
NMOCC - Santa Fe

ADDRESSEE LIST

J.R. Cone
Attn: Mr. John Byers
Box 6308
Lubbock, Texas 79400

Continental Oil
Box 1959
Midland Savings Bldg.
Midland, Texas 79701

Eastland Oil Company
704 Western United Life Bldg.
Midland, Texas 79701

Getty Oil Co.
8th Floor
Midland National Bank Tower
Box 1231
Midland, Texas 79701

Gulf Energy & Minerals Co.-U.S.
P.O. Box 1150
Midland, Texas 79701

Hondo Drilling Co.
c/o Tom Sivley
Booker Building
Artesia, New Mexico 88210

Imperial American
215 Mid-America Bldg.
Midland, Texas 79701

Barbara Jernigan
1007 Green Acres Dr.
Hobbs, New Mexico 88240

Mobil Oil Corporation
Box 633
Wall Towers West
Midland, Texas 79701

Moranco
John F. Moran(Trust)
P.O. Box 1860
Hobbs, New Mexico 88240

Moranco
Robert M. Moran
Box 1860
Hobbs, New Mexico 88240

Shell Oil Co.
P.O. Box 1509
Midland, Texas 79701

Texaco, Inc.
Box 3109
Midland, Texas 79701

Young Oil Corporation
103 Wall Towers East
Midland, Texas 79701

Aztec Oil & Gas Co.
2000 1st. Nat'l. Bank Bldg.
Dallas, Texas 75202

Chevron Oil Co.
8th Floor Wall Towers East Bldg.
Midland, Texas 79701

Amoco Production Co.
P.O. Box 3092
Houston, Texas 77001

John Hendrix
Box 9A
Eunice, New Mexico 88231

Young Oil Corp.
Wall Towers East
Midland, Texas 79701

Kirby Exploration Co.
P.O. Box 1745
Houston, Texas 77001

George Donnelly
3105 Shell
Midland, Texas 79701

Richard Donnelly
5 Winchester Court
Midland, Texas 79701

J. Harvey Herd
Wilco Building
Midland, Texas 79701

June 14, 1977

Atlantic Richfield Company
P.O. Box 1610
Midland, Texas 79701

Re: Proposed East Blinebry and East Drinkard Units
Lea County, New Mexico

Gentlemen:

Summit Energy, Inc., operator of the Gulf Bunin Lease, Lea County, New Mexico, has repeatedly informed Atlantic Richfield that we do not desire to join any unit as per the East Blinebry Field.

Further, we have informed you that Summit will cooperate in any way to maintain proper water injectors on their lease as per the proposed pattern. We feel that we are prudent operators and we also feel that we can maintain the proper procedures for secondary recovery in cooperation with the unit operator.

We do intend to resist any effort by Atlantic Richfield, to invoke the "Statutory Pooling". Summit has never desired to involve itself in (1) a multi-pay area which is unitized (2) involve the company in a very complicated mechanical area such as dually completed wells, etc. (3) involve the company in the exorbitant operating costs incurred when in joint operations with major companies.

Sincerely,

Paul G. White
Vice President-Production

PGW/gb

cc: Mr. Joe Ramey - NMOCC
Mr. Jerry Sexton - NMOCC

Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

PROPOSED EAST BLINEBRY
UNIT AND EAST DRINKARD UNIT

EXHIBIT III

PRESENT RATE OF INCOME

LEASE: GULF BUNIN

<u>MONTH</u>	<u>GROSS INCOME</u> \$	<u>OPERATING EXPENSE</u> \$	<u>NET INCOME</u> \$
1/77	11,660	1,317	10,343
2/77	15,366	1,452	13,914
3/77	13,366	1,125	12,241
4/77	11,656	1,245	10,411
5/77	11,236	1,493	9,743
6/77	<u>12,829</u>	<u>1,053</u>	<u>11,776</u>
TOTAL(6 MOS)	\$ 76,113	\$ 7,685	\$ 68,428



Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

PROPOSED EAST BLINEBRY
UNIT AND EAST DRINKARD UNIT

EXHIBIT IV

PRIMARY ECONOMICS

GULF BUNIN LEASE
LEA COUNTY, N.M.

GROSS ULTIMATE PRODUCTION

<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
520,008	2,795,256

CUMULATIVE PRODUCTION

7-31-77

<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
415,033	1,845,725

FUTURE GROSS RESERVES

<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
104,975	949,531

FUTURE NET RESERVES

<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
86,321	726,850

GROSS INCOME

\$
1,821,211

OPERATING COST

\$
711,322

NET INCOME

\$
1,109,889

*Oil Price escalated 6% per year to \$20.00 per barrel gross.

*Operating costs escalated 10% per year for life of property.

OIL AND GAS RESERVE
APPRAISAL

STATE: NEW MEXICO
COUNTY: LEA
LEASE: GULF BUNIN
DATE: July 31, 1977

<u>Period Ending</u>	<u>Gross Oil</u> <u>Bbls.</u>	<u>Net Oil</u> <u>Bbls.</u>	<u>Gross Gas</u> <u>MCF</u>	<u>Net Gas</u> <u>MCF</u>
1977 (6 MOS)	4,900	4,029	44,319	33,931
1978	9,200	7,565	83,215	63,709
1979	8,850	7,277	80,047	61,284
1980	8,425	6,928	76,208	58,235
1981	8,100	6,661	73,271	56,096
1982	7,650	6,291	69,201	52,980
1983	7,400	6,085	66,935	51,245
1984	7,000	5,756	63,316	48,475
1985	6,600	5,427	59,697	45,704
1986	6,400	5,263	57,893	44,323
1987	6,150	5,057	55,627	42,538
1988	5,800	4,769	52,459	40,163
1989	5,600	4,605	50,655	38,781
1990	5,400	4,440	48,840	37,392
1991	5,100	4,194	46,134	35,320
1992 (6 MOS)	2,400	1,974	21,714	16,624
TOTAL 15 YEARS	104,975	86,321	949,531	726,850
REMAINDER	-0-	-0-	-0-	-0-
TOTAL FUTURE	104,975	86,321	949,531	726,850
CUMULATIVE	415,033	-0-	1,845,725	-0-
TOTAL ULTIMATE	520,008	-0-	2,795,256	-0-

INCOME APPRAISAL

STATE: NEW MEXICO
COUNTY: LEA
LEASE: GULF BUNIN
DATE: July 31, 1977

<u>Period Ending</u>	<u>Gross Income</u> \$	<u>Opr. Expenses</u> \$	<u>Net Income</u> \$	<u>Cumulative Net Income</u> \$
1977 (6 MOS)	67,954	10,668	57,286	57,286
1978	133,416	23,470	109,946	167,232
1979	134,231	25,817	108,414	275,646
1980	141,320	28,399	112,921	388,567
1981	141,736	31,239	110,547	499,114
1982	140,453	34,363	106,090	605,204
1983	135,854	37,799	98,055	703,259
1984	128,509	41,579	86,930	790,189
1985	121,164	45,737	75,427	865,616
1986	117,502	50,311	67,191	932,807
1987	112,903	55,342	57,561	990,368
1988	106,473	60,876	45,597	1,035,965
1989	102,811	66,964	35,847	1,071,812
1990	99,127	73,660	25,467	1,097,279
1991	93,636	81,026	12,610	1,109,889
1992 (6 MOS)	44,072	44,072		1,109,889
TOTAL 15 YEARS	1,821,211	711,322	1,109,889	1,109,889
REMAINDER	-0-	-0-	-0-	-0-
TOTAL FUTURE	8,821,211	711,322	1,109,889	1,109,889



Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

PROPOSED EAST BLINEBRY
UNIT AND EAST DRINKARD UNIT

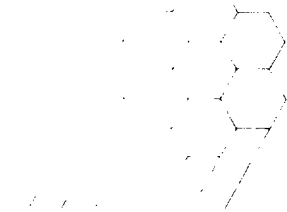
EXHIBIT V

SECONDARY ECONOMICS

GULF BUNIN LEASE
LEA COUNTY, N.M.

<u>GROSS RESERVES</u>		<u>NET RESERVES</u>	
<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>	<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
364,006	1,400,000	298,485	1,148,000
<u>GROSS INCOME</u>		<u>DEVELOPMENT COSTS</u>	<u>OPERATING COSTS</u>
\$		\$	\$
5,063,902		750,000	1,193,940
<u>NET INCOME UNDISCOUNTED</u>			
\$			
3,119,962			

- (1) Oil Price used \$14.85/Barrel for life of flood.
- (2) Recovery for Secondary Reserves 70% of Primary.
- (3) Operating Costs \$4.00/Barrel for life of flood and includes water costs.



Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

PROPOSED EAST BLINEBRY
UNIT AND EAST DRINKARD UNIT

EXHIBIT VI

COMBINED PRIMARY AND SECONDARY RESERVES

GULF BUNIN LEASE
LEA COUNTY, N.M.

<u>FUTURE</u> <u>GROSS RESERVES</u>		<u>FUTURE</u> <u>NET RESERVES</u>	
<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>	<u>Oil, Bbls.</u>	<u>Gas, Mcf.</u>
468,981	2,349,531	384,806	1,874,850
 <u>GROSS INCOME</u>		 <u>DEVELOPMENT COSTS</u>	
<u>\$</u>		<u>\$</u>	
6,885,113	750,000	1,905,262	
 <u>NET INCOME UNDISCOUNTED</u>			
<u>\$</u>			
4,229,851			

- (1) Reported \$92,000,000 Undiscounted Profit for total unit would give Summit Energy a ~~\$2,760,000~~ Profit for 3% of the unit. *\$2,350,000*
- (2) Does not include Debt Service during High Investment Cost Year.

June 14, 1977

Summit Energy, Inc.

112 North First
Artesia, New Mexico 88210

Atlantic Richfield Company
P.O. Box 1610
Midland, Texas 79701

Re: Proposed East Blinebry and East Drinkard Units
Lea County, New Mexico

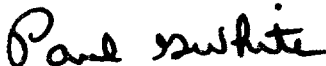
Gentlemen:

Summit Energy, Inc., operator of the Gulf Bunin Lease, Lea County, New Mexico, has repeatedly informed Atlantic Richfield that we do not desire to join any unit as per the East Blinebry Field.

Further, we have informed you that Summit will cooperate in any way to maintain proper water injectors on their lease as per the proposed pattern. We feel that we are prudent operators and we also feel that we can maintain the proper procedures for secondary recovery in cooperation with the unit operator.

We do intend to resist any effort by Atlantic Richfield, to invoke the "Statutory Pooling". Summit has never desired to involve itself in (1) a multi-pay area which is unitized (2) involve the company in a very complicated mechanical area such as dually completed wells, etc. (3) involve the company in the exorbitant operating costs incurred when in joint operations with major companies.

Sincerely,



Paul G. White
Vice President-Production

PGW/gb

cc: Mr. Joe Ramey - NMOCC
Mr. Jerry Sexton - NMOCC

Revisions to the Unit Agreement and the
Unit Operating Agreement
East Blinebry Unit
Lea County, New Mexico

Unit Agreement

1. Page 1 lines 5, 20 & 23: "p" in parties is capitalized.
2. Page 2 line 4: "p" in parties is capitalized.
3. Page 25: Replace Page 25 with new Page 25.
4. Page 27: Replace Page 27 with new Page 27.
5. Page 31: Replace Page 31 with new Page 31.

Unit Operating Agreement

1. Page 4 line 24: the word "that" becomes "at".
2. Page 25 line 5: "Onwers" becomes "Owners".
3. Page 27 line 21: the word "Interest" becomes "Interests".
4. Page 27 line 23: "boligation" becomes "obligation".
5. Page 3 Exhibit "F": Article III, 1A (1) should read "Injection well rate for each zone injected into through separate tubing strings \$155.00".
(This replacement page was previously furnished to you by cover letter dated June 3, 1977.)
6. Page 1 Exhibit "G", paragraph 2: delete "undivided interests" and insert "Combined Unit Participation".

6-7-77

McRichfield Company * North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631

Conc 5/27



June 9, 1977

Working Interest Owners
East Drinkard and
East Blinebry Units
Lea County, New Mexico

Please attach the enclosed replacement pages to the East
Blinebry and East Drinkard Unit and Unit Operating
Agreements furnished to you by cover letter dated June 1,
1977.

Thank you for your continued assistance.

Very truly yours,

Karyn Zimmerman

Karyn Zimmerman
Land Department

KZ:lh

Enclosures

AtlanticRichfieldCompany North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631



June 9, 1977

Working Interest Owners
East Drinkard and
East Blinebry Units
Lea County, New Mexico

Please attach the enclosed replacement pages to the East
Blinebry and East Drinkard Unit and Unit Operating
Agreements furnished to you by cover letter dated June 1,
1977.

Thank you for your continued assistance.

Very truly yours,

Karyn Zimmerman
Land Department

KZ:lh

Enclosures

AtlanticRichfieldCompany North American Producing Division
Permian District
Post Office Box 1610
Midland, Texas 79701
Telephone 915 682 8631



June 9, 1977

Royalty Interest Owners
East Drinkard and
East Blincbry Units
Lea County, New Mexico

Please attach the enclosed replacement pages to the East Drinkard and East Blincbry Unit Agreements furnished to you by cover letter dated June 1, 1977.

Thank you for your continued assistance.

Very truly yours,

A handwritten signature in cursive script, reading "Karyn Zimmerman". The signature is written in black ink and is positioned above the typed name.

Karyn Zimmerman
Land Department

KZ:lh

Enclosures

**UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO**

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

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9	Accounting Provisions and Unit Operating Agreement	10
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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of August, 1976, by
and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as "PARTIES hereto";

WITNESSETH:

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

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

WHEREAS, the Oil Conservation Commission of the State of New Mexico is
authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws
of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949, and Chap.
293, Laws of 1975) to approve this Agreement, and the conservation pro-
visions hereof; and

WHEREAS, the Parties hereto hold sufficient interests in the East
Blinebry Unit covering the land hereinafter described to give reasonably
effective control of operation therein; and

WHEREAS, it is the purpose of the Parties hereto to conserve natural
resources, to prevent waste and secure the other benefits obtainable

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST BLINEBRY UNIT
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WHEREAS, it is the purpose of the parties hereto to conserve natural
resources, to prevent waste and secure the other benefits obtainable

through development and operation of the area subject to this Agreement
under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises
herein contained, the Parties hereto commit to this Agreement their
respective interests in the unitized formation of the below defined Unit
Area, and agree severally among themselves as follows:

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

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agree-
ment, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands described in Exhibit "B"
and depicted on Exhibit "A" hereof, and such land is hereby designated
and recognized as constituting the Unit Area, containing 3,080.00 acres,
more or less, in Lea County, New Mexico.

(b) "Commission" is defined as the Oil Conservation Commission of the
State of New Mexico.

(c) "Director" is defined as the Director of the United States
Geological Survey.

through development and operation of the area subject to this Agreement
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State of New Mexico.

(c) "Director" is defined as the Director of the United States
Geological Survey.

(d) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate. 1 2

(e) "Department" is defined as the Department of the Interior of the United States of America. 3 4

(f) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey for the area in which the Unit Area is situated. 5 6

(g) "Unitized Formation" means that subsurface portion of the Unit Area which includes all of the Blinbry formation, which is described as follows: 7 8

That stratigraphic interval encountered in the Sinclair Oil Company Roy Barton #3 located 1980' FNL and 660' FEL of Section 23, Township 21 South, Range 37 East, Lea County, New Mexico, the top of which is shown on the Welx Gammaray-Neutron Log dated August 17, 1963, at the subsurface depth of 5,550' and the bottom of which is shown at a subsurface depth of 6,007'. 9 10 11 12 13 14

(h) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within and produced from the Unitized Formation, of the Unitized Land. 15 16 17 18

(i) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B". 19 20

(j) "Tract Participation" is defined as the percentage of participation shown on Exhibit "C" for allocating Unitized Substances to a Tract under this Agreement. 21 22 23

(k) "Unit Participation" is the sum of the percentages obtained by 24

1 multiplying the Working Interest of a Working Interest Owner in each
2 Tract by the Tract Participation of such Tract.

3 (l) "Working Interest" is the right to search for, produce and acquire
4 Unitized Substances whether held as an incident of ownership of mineral
5 fee simple title, under any oil and gas lease, or otherwise held, which
6 interest is chargeable with and obligated to pay or bear, either in cash
7 or out of production, or otherwise, all or a portion of the cost of
8 drilling, developing and producing the Unitized Substances from the
9 Unitized Formation and operations thereof hereunder. Provided that any
10 royalty interest created out of a working interest subsequent to the exe-
11 cution of this Agreement by the owner of the working interest shall con-
12 tinue to be subject to such working interest burdens and obligations.

13 (m) "Working Interest Owner" is any party hereto owning a Working
14 Interest, including a carried working interest owner, holding an interest
15 in Unitized Substances by virtue of a lease, operating agreement, fee title
16 or otherwise. The owner of Oil and Gas Rights that are free of lease or
17 other instrument creating a Working Interest in another shall be regarded
18 as a Working Interest Owner to the extent of seven-eighths (7/8) of his
19 interest in Unitized Substances, and as a Royalty Owner with respect to
20 his remaining one-eighth (1/8) interest therein.

21 (n) "Royalty Interest" or "Royalty" is an interest other than a Working
22 Interest in or right to receive a portion of the Unitized Substances or the
23 proceeds thereof and includes the royalty interest reserved by the lessor
24 by an oil and gas lease and any overriding royalty interest, oil payment
25 interest, net profit contracts, or any other payment or burden which does
26 not carry with it the right to search for and produce Unitized Substances.

- (o) "Royalty Owner" is the owner of a Royalty Interest. 1
- (p) "Unit Operating Agreement" is the agreement entered into by and 2
between the Unit Operator and the Working Interest Owners as provided in 3
Section 9, infra, and shall be styled "Unit Operating Agreement, East 4
Blaine Unit, Lea County, New Mexico". 5
- (q) "Oil and Gas Rights" is the right to explore, develop and operate 6
lands within the Unit Area for the production of Unitized Substances, or 7
to share in the production so obtained or the proceeds thereof. 8
- (r) "Outside Substances" is any substance obtained from any source 9
other than the Unitized Formation and injected into the Unitized Formation. 10
- (s) "Unit Manager" is any person or corporation appointed by Working 11
Interest Owners to perform the duties of Unit Operator until the selection 12
and qualification of a successor Unit Operator as provided for in Section 7 13
hereof. 14
- (t) "Unit Operator" is the party designated by Working Interest Owners 15
under the Unit Operating Agreement to conduct Unit Operations. 16
- (u) "Unit Operations" is any operation conducted pursuant to this 17
Agreement and the Unit Operating Agreement. 18
- (v) "Unit Equipment" is all personal property, lease and well equip- 19
ment, plants, and other facilities and equipment taken over or otherwise 20
acquired for the joint account for use in Unit Operations. 21
- (w) "Unit Expense" is all cost, expense, or indebtedness incurred 22
pursuant to this Agreement and the Unit Operating Agreement for or on 23
account of Unit Operations. 24
- (x) "Combined Unit Participation" Pursuant to the allocation set out 25
in Section 15 herein, the Combined Unit Participation for each Working 26

Interest Owner shall equal the sum of 35.456% of each Working Interest
Owner's East Drinkard Unit Participation and 64.544% of each Working
Interest Owner's East Blinebry Unit Participation as shown in the East
Blinebry Unit Operating Agreement, Lea County, New Mexico.

(y) "Voting Interest" means each Working Interest Owner shall have a
Voting Interest equal to its Combined Unit Participation.

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the
Unit Area and the boundaries and identity of tracts and leases in said
Unit Area to the extent known to the Unit Operator. Exhibit "B" attached
hereto is a schedule showing, to the extent known to the Unit Operator, the
acreage comprising each Tract, percentages and kind of ownership of oil and
gas interests in all land in the Unit Area. Exhibit "C" attached hereto
shows the Tract Participation of each Tract in the Unit Area. However,
nothing herein or in said schedule or map shall be construed as a repre-
sentation by any party hereto as to the ownership of any interest other
than such interest of interests as are shown in said map or schedule as
owned by such party. Exhibit "D" attached hereto is the provisions of
paragraphs 1 through 7 of Section 202 of Executive Order 11246. Exhibits
"A", "B", and "C" shall be revised by the Unit Operator whenever changes
in the Unit Area render such revision necessary or when requested by the
Supervisor, and not less than five copies shall be filed with the Super-
visor.

SECTION 4. EXPANSION. The above described Unit Area may when practi-
cable be expanded to include therein any additional Tract or Tracts re-
garded as reasonably necessary or advisable for the purposes of this
Agreement. Such expansion shall be effected in the following manner:

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

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owner's meeting or otherwise) if at least three Working Interest Owners having in the aggregate eighty percent (80%) Voting Interest then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(1) After obtaining preliminary concurrence by the Director, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

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

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Supervisor the following: (a) Evidence of mailing or delivering copies of said notice of expansion; (b) An application for approval of such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements

of Section 14, and Sections 32, infra; and (d) A copy of all objections
received along with the operators response thereto.

The expansion shall, after due consideration of all pertinent informa-
tion and approval by the Supervisor, become effective as of the date pre-
scribed in the notice thereof, preferably the first day of a month subse-
quent to the date of notice. The revised Tract Participation of the
respective Tracts included within the Unit Area prior to such enlargement
shall remain in the same ratio one to another.

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to
the Unitized Formation shall constitute land referred to herein as "Unitized
Land" or "Land subject to this Agreement". Except as provided in Section
15, hereof, nothing herein shall be construed to unitize, or in any way
affect the oil, gas and other minerals contained in or that may be produced
from any formation other than the Unitized Formation as defined in Section
2(g) of this Agreement.

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

Unit Operator shall have a lien upon interests of Working Interest

Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Supervisor unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period. The resignation or removal of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation or removal.

The Unit Operator shall be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more Voting Interest then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commission and the Supervisor.

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

The resignation or removal of Unit Operator under this Agreement shall

not terminate its right, title or interest as the owner of a Working Interest 1
or other interest in Unitized Substances, but upon the resignation or re- 2
moval of Unit Operator becoming effective, such Unit Operator shall deliver 3
possession of all wells, equipment, books and records, materials, appur- 4
tenances and any other assets used in connection with the Unit Operations 5
and owned by the Working Interest Owners to the new duly qualified successor 6
Unit Operator or to the Unit Manager if no such new Unit Operator is elected, 7
to be used for the purpose of conducting Unit Operations hereunder. Nothing 8
herein shall be construed as authorizing the removal of any material, equip- 9
ment or appurtenances needed for the preservation of any wells. Nothing 10
herein contained shall be construed to relieve or discharge any Unit Operator 11
or Unit Manager who resigns or is removed hereunder from any liability or 12
duties accruing or performable by it prior to the effective date of such 13
resignation or removal. 14

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall 15
tender its resignation as Unit Operator or shall be removed as hereinabove 16
provided, the Working Interest Owners shall select a successor Unit Opera- 17
tor as herein provided. Such selection shall not become effective until 18
(a) a Unit Operator so selected shall accept in writing the duties and 19
responsibilities of Unit Operator, and (b) the selection shall have been 20
approved by the Supervisor. If no successor Unit Operator or Unit Manager 21
is selected and qualified as herein provided, the Director, at his election, 22
may declare this Agreement terminated. 23

In selecting a successor Unit Operator the affirmative vote of three or 24
more Working Interest Owners having a total of sixty-five percent (65%) or 25
more of the total Voting Interest shall prevail; provided that if any one 26

Working Interest Owner has a Voting Interest of more than thirty-five
percent (35%), its negative vote or failure to vote shall not be re-
garded as sufficient unless supported by the vote of one or more other
Working Interest Owners having a total Voting Interest of at least five
percent (5%). If the Unit Operator who is removed votes only to succeed
itself or fails to vote, the successor Unit Operator may be selected by the
affirmative vote of the owners of at least sixty-five percent (65%) of the
Voting Interest remaining after excluding the Voting Interest of Unit
Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs
and expenses incurred by Unit Operator in conducting Unit Operations here-
under shall be paid, apportioned among and borne by the Working Interest
Owners in accordance with the Unit Operating Agreement. Such Unit Opera-
ting 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 contracts and such other
rights and obligations as between Unit Operator and the Working Interest
Owners as may be agreed upon by the Unit Operator and the Working Interest
Owners; however, no such Unit Operating Agreement shall be deemed either
to modify any of the terms and conditions of this Agreement or to relieve
the Unit Operator of any right or obligation established under this
Agreement, and in case of any inconsistency or conflict between this
Agreement and the Unit Operating Agreement, this Agreement shall prevail.
Copies of any Unit Operating Agreement executed pursuant to this Section
shall be filed with the Supervisor as required prior to approval of this

Agreement.

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

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional 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 Supervisor, and the Commission, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gases and any one or more other substances or combination of substances whether produced from the Unitized Land or not, and that the location of input wells

and the rates of injection therein shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the Supervisor and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the Supervisor and Commission, said plan, and all subsequently approved plans shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation. Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for secondary recovery of Unitized Substances from the Unit Area within one year after the Effective Date of this Agreement, or any extension thereof approved by the Supervisor, this agreement shall terminate automatically as of the date of default. After such operations are commenced Unit Operator shall carry on such operations as could a reasonably prudent operator under the same or similar circumstances.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the

and the rates of injection therein shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. Subject to like approval the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the Supervisor and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the Supervisor and Commission, said plan, and all subsequently approved plans shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation. Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for secondary recovery of Unitized Substances from the Unit Area within one year after the Effective Date of this Agreement, or any extension thereof approved by the Supervisor, this agreement shall terminate automatically as of the date of default. After such operations are commenced Unit Operator shall carry on such operations as could a reasonably prudent operator under the same or similar circumstances.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the

extent of their rights and interest, hereby grant to Unit Operator the right to use as much of the surface of the Unitized Land as may reasonably be necessary for Unit Operations; provided that nothing herein shall be construed as leasing or otherwise conveying to the Unit Operator a site for water, gas injection or other plants or camp site.

Unit Operator shall have free use of water or brine or both from the Unitized Land for Unit Operations, except water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the owner for damages to growing crops, timber, fences, improvements and structures on the Unitized Land that result from Unit Operations.

SECTION 13. TRACT PARTICIPATION. In Exhibit "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Phase I and Phase II of Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Phase I and Phase II Tract Participation of each Tract as shown in Exhibit "C" were determined in accordance with the following formulas:

Tract Participation during Phase I: $25\% A + 25\% B + 20\% C + 25\% D + 5\% E$

Phase II: $14\% F + 85\% G + 1\% E$

Where A = Ratio of the number of barrels of remaining primary oil reserves from each Tract to the summation of barrels of remaining primary oil reserves from all Tracts after April 1, 1976, as accepted by the Working Interest Owners.

B = Ratio of number of MMCF of remaining primary gas reserves from each Tract to the summation of MMCF of remaining primary gas reserves from all Tracts after April 1, 1976, as accepted by the Working Interest Owners.

- C = Ratio of the oil production from each Tract to the summation of the oil production from all Tracts during the period beginning October 1, 1975, to April 1, 1976. 1
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- D = Ratio of the gas production from each Tract to the summation of the gas production from all Tract during the period beginning October 1, 1975, to April 1, 1976. 4
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6
- E = Ratio of the surface acres for each Tract to the summation of the surface acres for all Tracts. 7
8
- F = Ratio of the cumulative oil produced from each Tract to the summation of cumulative oil produced from all Tracts to April 1, 1976. 9
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11
- G = Ratio of ultimate primary oil from each Tract to the summation of ultimate primary oil from all Tracts as determined by Working Interest Owners. 12
13
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Phase I shall begin on the Effective Date of this Agreement and continue until the first day of the calendar month next following the date on which 1,038,799 barrels of oil have been credited or allocated to the Unit after April 1, 1976 in accordance with Section 15 hereof determined from the official production reports (currently known as C-115 Reports) filed with the New Mexico Oil Conservation Commission. Phase II shall begin with the termination of Phase I and continue for the remainder of the term of this Agreement. 15
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In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area. The total number of barrels of oil to be produced before Phase II begins shall remain 1,038,799 barrels, however, oil produced from all Tracts within the Unit Area, qualified as well as non-qualified Tracts, shall count toward the required total of 1,038,799 barrels. 23
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SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof the Tracts within the Unit Area which shall be entitled to 30
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participation in the production of Unitized Substances shall be those Tracts
more particularly described 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 quali-
fy as follows:

(a) Each tract as to which Working Interest Owners owning one hundred
percent (100%) of the Working Interest have become parties to this Agreement
and as to which Royalty Owners owning seventy-five percent (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
percent (100%) of the Working Interest have become parties to this Agreement,
and as to which Royalty Owners owning less than seventy-five percent (75%) of
the Royalty Interest have become parties to this Agreement, and as to which
(1) the Working Interest Owner who operates the Tract and at least seventy-
five percent (75%) of all other Working Interest Owners in such Tract have
joined in a request for the inclusion of such Tract, and as to which (2)
owners of seventy-five percent (75%) of the Phase I Voting Interest in all
Tracts that meet the requirements of Section 14 (a) above have voted in
favor of the inclusion of such tract.

(c) Each Tract as to which Working Interest Owners owning less than one
hundred percent (100%) of the Working Interest have become parties to this
Agreement, regardless of the percentage of Royalty Interest therein that is
committed hereto; and as to which (1) the Working Interest Owner who oper-
ates the Tract and a total of seventy-five percent (75%) or more 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, and have

executed and delivered, or obligated themselves to execute and deliver, an
indemnity agreement indemnifying and agreeing to hold harmless the other
owners of committed Working Interests, their successors and assigns, against
all claims and demands that may be made by the owners of Working Interest in
such Tract who are not parties to this Agreement, and which arise out of
inclusion of the Tract; and as to which (2) the owners of seventy-five per-
cent (75%) of the Voting Interest in all Tracts that meet the requirements
of Section 14 (a) and 14 (b) have voted in favor of the inclusion of such
tract and to accept the indemnity agreement. Upon the inclusion of such a
Tract, the Tract Participations which would have been attributed to the non-
subscribing owners of 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, and joined in the indemnity agreement, in proportion to their
respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts
which have not been effectively committed to or made subject to this Agree-
ment by qualifying as above provided, then such Tract or Tracts shall not
be entitled to participate hereunder. Unit Operator shall, when submitting
this Agreement for final approval by the Supervisor, file therewith a
schedule of those Tracts which have been committed and made subject to this
Agreement and are entitled to participate in Unitized Substances. Said
schedule shall set forth opposite each such committed Tract the lease num-
ber or assignment number, the owner of record of the lease, and the percen-
tage participation of such Tract which shall be computed according to the
participation formula set out in Section 13 (Tract Participation) above.

This schedule of participation shall be Revised Exhibit "C" and upon approval thereof by the Supervisor shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Supervisor.

Provided however, that if Working Interest Owners owning at least seventy-five percent (75%) of the Phase I Unit Participation have become parties to this Agreement and if Royalty Interest Owners owning at least seventy-five percent (75%) of the Royalty Interest have become parties hereto, the Unit Operator may make application to the New Mexico Oil Conservation Commission for statutory unitization of the uncommitted interests.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. The parties hereto are also parties to that Unit Agreement dated the first day of August, 1976, covering the Drinkard formation as more particularly described therein. To permit greater utilization of well bores and to maximize recovery of Unitized Substances a cooperative development of the two Units is required. Accordingly, the parties agree that production from the two Units may be commingled either in common well bores or surface facilities, or both, as the Unit Operators may consider feasible. For the purposes of allocating Working Interest and Royalty Interest production for all purposes of this Agreement, all production from the two units shall be allocated and credited as if 64.544% of such production had been produced from the Unitized Formation for the Blinebry Unit and 35.456% had been produced from the Unitized Formation from the Drinkard Unit whether or not actually produced therefrom and whether or not actually commingled, and such allocation shall continue until all production from both Units has been deemed uneconomical and both Units have been terminated as provided in Section 23 of each Unit Agreement. The production

so allocated and credited shall be deemed to be Unitized Substances pro- 1
duced and saved from each Unit and shall be further allocated to each Tract 2
as herein provided. 3

The total Unitized Substances produced, saved, and allocated as described 4
above to the East Blinebry Unit, (less, save and except any part of such 5
Unitized Substances used in conformity with good operating practices on 6
Unitized Land for drilling, operating camp and other production or develop- 7
ment purposes and for injection or unavoidable loss in accordance with a 8
Plan of Operation approved by the Supervisor) shall be apportioned among 9
and allocated to the qualified Tracts in accordance with the respective Tract 10
Participations of the East Blinebry Unit effective hereunder during the res- 11
pective periods such Unitized Substances were produced, as set forth in the 12
schedule of participation in Exhibit "C". The amount of Unitized Substances 13
so allocated to each Tract, and only that amount, (regardless of whether it 14
be more or less than the amount of the actual production of Unitized Sub- 15
stances from the well or wells, if any, on such Tract) shall, for all intents, 16
uses and purposes, be deemed to have been produced from such Tract. 17

The Unitized Substances allocated to each Tract shall be distributed 18
among, or accounted for, to the parties entitled to share in the production 19
from such Tract in the same manner, in the same proportions, and upon the 20
same conditions, as they would have participated and shared in the production 21
from such Tracts, or in the proceeds thereof, had this Agreement not been 22
entered into; and with the same legal force and effect. 23

No Tract committed to this Agreement and qualified for participation as 24
above provided shall be subsequently excluded from participation hereunder 25
on account of depletion of Unitized Substances. 26

If the Working Interest and/or the Royalty Interest in any Tract are 1
divided with respect to separate parcels or portions of such Tract and owned 2
now or hereafter in severalty by different persons, the Tract Participation 3
during both Phase I and Phase II shall, in the absence of a recordable in- 4
strument executed by all owners and furnished to Unit Operator fixing the 5
divisions of ownership, be divided among such parcels or portions in pro- 6
portion to the number of surface acres in each. 7

Each Working Interest Owner and parties entitled thereto by virtue of 8
ownership of Oil and Gas Rights therein shall have the right to recieve in 9
kind their respective share of allocated Unitized Substances from both units. 10
Each Working Interest Owner and the parties entitled thereto shall have the 11
continuing right to receive such production in kind at a common point within 12
the Unit Area and to sell or dispose of the same as it sees fit. Each such 13
party shall have the right to construct, maintain and operate all necessary 14
facilities for that purpose on unitized land, provided that same are so con- 15
structed, maintained and operated as not to interfere with operations carried 16
on pursuant hereto. Subject to Section 17 hereof, any extra expenditure in- 17
curred by Unit Operator by reason of the delivery in kind of any portion of 18
the Unitized Substances shall be borne by the party responsible therefor under 19
the controlling lease or contract. In the event any Interest Owner shall fail 20
to take or otherwise adequately dispose of its proportionate share of the pro- 21
duction from the Unitized Formation currently as and when produced, then so 22
long as such condition continues, Unit Operator, for the account and at the 23
expense of the Working Interest Owner of the Tract or Tracts concerned, and in 24
order to avoid curtailing the operation of the Unit Area, may, but shall not 25
be required to, sell or otherwise dispose of such production to itself or to 26

others on a day-to-day basis, 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, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased, by Unit Operator, shall be responsible for the payment of all Royalty, overriding royalty, and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such Royalty, overriding royalty and production payments.

If, after the effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for

Participation) and Section 32 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from this Agreement as provided for in Section 31 (Loss of Title), the schedule of participation as shown in Exhibit "C", shall be revised by the Unit Operator; and the revised Exhibit "C", upon approval by the Supervisor, shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided. In any such revised Exhibit "C", pursuant to this paragraph, a tract participation of a qualified tract shall remain in the same ratio one to another.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for the use of repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Supervisor, a like amount of metered gas may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise may be consented to or prescribed by the Supervisor as conforming to good petroleum engineering practices and provided further that such right to withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the

Unitized Substances allocated to such Tract, and Unit Operator shall make 1
deliveries of such Royalty share taken in kind in conformity with the ap- 2
plicable contracts, laws and regulations. Settlement for Royalty not 3
taken in kind shall be made by Working Interest Owners responsible therefor 4
under existing contracts, laws and regulations on or before the last day of 5
each month for Unitized Substances produced during the preceding calendar 6
month; provided, however, that nothing herein contained shall operate to re- 7
lieve the lessees of any land from their respective lease obligations for the 8
payment of any Royalty due under their leases, except that such Royalty shall 9
be computed on Unitized Substances as allocated to each Tract in accordance 10
with the terms of this Agreement. With respect to Federal leases committed 11
hereto on which the royalty rate depends upon the daily average production 12
per well, such average production shall be determined in accordance with the 13
operating regulations pertaining to Federal leases as though the committed 14
Tracts were included in a single consolidated lease. 15

If the amount of production or the proceeds thereof accruing to any 16
Royalty Owner (except the United States of America) in a Tract depends upon 17
the average production per well or the average pipeline runs per well from 18
such Tract during any period of time, then such production shall be deter- 19
mined from and after the effective date hereof by dividing the quantity of 20
Unitized Substances allocated hereunder to such Tract during such period of 21
time by the number of wells located thereon completed in the Unitized For- 22
mation as of the Effective Date hereof, provided that any Tract not having any 23
well completed in the Unitized Formation on the Effective Date hereof 24
shall be considered as having one such well for the purposes of this provi- 25
sion. 26

All Royalty due the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

Each Royalty Owner (other than United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, and the Supervisor, is hereby empowered to enter into a border line agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 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 or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representatives, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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 part or separately owned

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

ARTICLE 15

LIABILITY, CLAIMS, AND SUITS

15.1 Individual Liability. The duties, obligations, and liabilities
of Working Interest Owners, except as expressly otherwise provided in Article
6.2 hereof, 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.

15.2 Settlements. Unit Operator may settle any single damage claim or
suit involving Unit Operations but not involving an expenditure in excess of
Five Thousand Dollars (\$5,000.00) for each or combined provided that payment is
in complete settlement of such claim or suit. If the amount required for settle-
ment 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 rights given Working Interest Owners and Unit Operator
by this agreement and the Unit Agreement, the Working Interest Owner shall

Tract subject to this Agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in 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, producing or improved recovery operations performed hereunder, shall be deemed to be performed upon and for the benefit of each Tract, 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 Secretary, or his duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its 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) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part

outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the Effective Date of unitization; provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in Paying Quantities." In the application of this provision the terms "area" and "lands" shall be the Unit Area as defined in Section 2 hereof.

SECTION 22. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of parties hereto and their successors in interest until the Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

SECTION 23. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the

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 the Code is permitted, each of the parties 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 such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 17

NOTICES

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

ARTICLE 18

WITHDRAWAL OF WORKING INTEREST OWNER

18.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all of its Oil and Gas Rights in the Unitized Formation, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of the instrument accomplishing such transfer. The delivery of the instrument of transfer may be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their

calendar month next following the approval of this Agreement by the Supervisor and the Commission.

If this Agreement does not become effective on or before January 1, 1978, it shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Voting Interest of at least seventy-five percent (75%), and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend said expiration date for a period not to exceed six months (hereinafter called "extended expiration date"). If said expiration date is so extended and this Agreement does not become effective on or before said extended expiration date, it shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect.

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

The term of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement coterminus with the Unit Agreement, East Drinkard Unit, Lea County, New Mexico, may be terminated with the approval of the Supervisor by Working Interest Owners owning eighty percent (80%) of the Voting Interest

then in effect whenever such Working Interest Owners determine that the
Unit Operations are no longer profitable, or in the interest of conservation.

Upon approval, such termination shall be effective as of the first day of
the month after said Working Interest Owners' determination. Notice of any
such termination shall be filed by Unit Operator in the office of the County
Clerk of Lea County, New Mexico, within thirty (30) days of the effective date
of termination.

Upon termination of this Agreement, the parties hereto shall be governed
by the terms and provisions of the leases and contracts affecting the sep-
arate Tracts just as if this Agreement had never been entered into.

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

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All pro-
duction and the disposal thereof shall be in conformity with allocations and
quotas made or fixed by any duly authorized person or regulatory body under
any Federal or State statute. The Director is hereby vested with authority
to alter or modify from time to time, in his discretion, the rate of pros-
pecting and development and within the limits made or fixed by the Commission
to alter or modify the quantity and rate of production under this Agreement,
such authority being hereby limited to alteration or modification in the
public interest, the purpose thereof in the public interest to be served
thereby to be stated in the order of alteration or modification.

Powers in this Section vested in the Director shall only be exercised

After notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

SECTION 25. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement agrees to comply with the clauses set forth in Exhibit "D" attached hereto and made a part hereof.

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Department and the Commission, and to appeal from any order issued under the rules and regulations of the Department or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department or the Commission or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. 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 wherein said Unitized Lands are located,

or regulations issued thereunder in any way affecting such party, or as a
waiver by any such party of any right beyond his or its authority to waive;
provided, however, each party hereto covenants that it will not resort to
any action to partition the Unitized Land or the Unit Equipment.

SECTION 29. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY.

Each Working Interest Owner has heretofore placed and used on its Tract or
Tracts committed to this Agreement various well or lease equipment and other
property, equipment and facilities. It is also recognized that additional
equipment and facilities may hereafter be placed and used upon the Unitized
Land as now or hereafter constituted. Therefore, for all purposes of this
Agreement any such equipment shall be considered to be personal property and
not fixtures attached to realty. Accordingly, said well and lease equipment
and personal property is hereby severed from the mineral estates affected by
this Agreement, and it is agreed that any such equipment and personal property
shall be and remain personal property of the Working Interest Owners for all
purposes.

SECTION 30. UNAVOIDABLE DELAY. All obligations under this Agreement
requiring the Unit Operator to commence or continue improved recovery opera-
tions or to operate on or produce Unitized Substances from any of the lands
covered by this Agreement shall be suspended while, but only so long as, the
Unit Operator, despite the exercise of due care and diligence, is prevented
from complying with such obligations, in whole or in part, by strikes, acts
of God, Federal, State or municipal law or agency, unavoidable accident,
uncontrollable delays in transportation, inability to obtain necessary ma-
terials in open market, or other matters beyond the reasonable control of the
Unit Operator whether similar to matters herein enumerated or not.

Owners, and by agreeing to plug properly each well in compliance
with applicable laws and regulations at such times 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
in compliance with applicable laws and regulations.

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 respect-
ive Combined Unit Participations during the Phase in which such sal-
vaging, liquidation, or other distribution occurs.

21.1.5 Distribution of Assets. Working Interest Owners shall
share in the distribution of Unit Equipment, or the proceeds thereof,
in proportion to their Combined Unit Participation.

ARTICLE 22

EXECUTION

22.1 Original, Counterpart, or Other Instrument. An owner of a
Working Interest 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 provision hereof shall be

SECTION 31. LOSS OF TITLE. In the event title to any Tract of unitized 1
land shall fail so as to render the Tract inoperable under this Agreement 2
and the true owner cannot be induced to join this Agreement, such Tract shall 3
be automatically regarded as not committed hereto as of the first day of the 4
calendar month in which the failure of title is determined and there shall be 5
such readjustment of future costs and benefits as may be required on account 6
of the loss of such title. In the event of a dispute as to title as to any 7
Royalty, Working Interest or other interest subject thereto, payment or de- 8
livery on account thereof may be withheld without liability or interest until 9
the dispute is finally settled; provided, that as to Federal land or leases, 10
no payments of funds due the United States of America shall be withheld, but 11
such funds shall be deposited as directed by the Supervisor to be held as 12
unearned money pending final settlement of the title dispute, and then applied 13
as earned or returned in accordance with such final settlement. 14

Unit Operator as such is relieved from any responsibility for any defect 15
or failure of any title hereunder. 16

SECTION 32. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty 17
Owner, at any time, must be accompanied by appropriate joinder of the corres- 18
ponding Working Interest Owner in order for the interest of such Royalty 19
Owner to be regarded as effectively committed. Joinder to this Agreement by 20
a Working Interest Owner, at any time, must be accompanied by appropriate 21
joinder to the Unit Operating Agreement in order for such interest to be re- 22
garded as effectively committed to this Agreement. 23

Any oil or gas interest in the Unitized Formations not committed hereto 24
prior to submission of this Agreement to the Supervisor for final approval 25
may thereafter be committed hereto upon compliance with the applicable 26

provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the effective date hereof on the same basis of participation as provided in said Section 14, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent Joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interests Owners owning not less than sixty-five percent (65%) of the Voting Interest then in effect, and approved by the Supervisor. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where Federal land is involved, such Joinder must be approved by the Supervisor. Such Joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Supervisor is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may

be ratified or consented to by separate instrument in writing, specifically
referring hereto, and shall be binding upon all those parties who have exe-
cuted such a counterpart, ratification, or consent hereto with the same force
and effect as if all parties had signed the same document, and regardless of
whether or not it is executed by all other parties owning or claiming an in-
terest in the land within the above described Unit Area.

SECTION 34. 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 owned or controlled by such party; provided, that if the party
is the owner of a Working Interest, he must also execute the Unit Operating
Agreement.

SECTION 35. TAXES. Each party hereto shall, for its own account, render
and pay its share of any taxes levied against or measured by the amount or
value of the Unitized Substances produced from the Unitized Land; provided,
however, that if it is required or if it be determined that the Unit Operator
or the several Working Interest Owners must pay or advance said taxes for the
account of the parties hereto, it is hereby expressly agreed that the parties
so paying or advancing said taxes shall be reimbursed therefor by the parties
hereto, including Royalty Owners, who may be responsible for the taxes on
their respective allocated share of said Unitized Substances. No taxes shall
be charged to the United States, nor to any lessor who has a contract with a
lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of
the parties hereto are intended to be several and not joint or collective.
This Agreement is not intended to create, and shall not be construed to
create, an association or trust, or to impose a partnership duty, obligation

or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unitized Land in order to ascertain the amount of merchantable oil above the pipe line connection in such tanks as of the effective date hereof. All such oil which has then been produced in accordance with established allowables shall be and remain the property of the Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by the Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. 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.

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 over-production has been sold or otherwise disposed of, such over-production 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.

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

ATLANTIC RICHFIELD COMPANY
Unit Operator and Working Interest Owner

By: _____
Attorney in Fact

P. O. Box 1610
Midland, Texas 79701

STATE OF NEW MEXICO)
) SS:
COUNTY OF LEA)

The foregoing instrument was acknowledged before me this ____ day of _____, 1977, by _____, Attorney-in-Fact for Atlantic Richfield Company, on behalf of said company.

Notary Public

My commission expires:

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Getty

Don

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Continental
H&P

L E G E N D

UNIT BOUNDARY
TRACT BOUNDARY
TRACT NUMBER

 FEDERAL LAND 1200 Acs ± 38.96 %
OF UNIT AREA

☐ FEE LAND 1880 Acs. = 61.04%
OF UNIT AREA

Exhibit "A"

EAST BLINEBRY UNIT

T-21-S . R-37-E

LEA COUNTY, NEW MEXICO

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
1	T-21-S, R-37-E, E/2, N/2 NW/4, SE/4 NW/4 Sec. 11; NW/4 and W/2 NE/4 Sec. 12; E/2 E/2 Sec. 14; S/2 NW/4, SW/4 and NE/4, SW/4 NW/4 SE/4 Sec. 13	1200	LC-032096-8 HBP	U.S.A. 12.5%	Amoco Production Co. 25.00000% Atlantic Richfield Company 25.00000% Chevron Oil Co. 25.00000% Continental Oil Co. 25.00000% Total - 100.00000%	Amoco Production Co. 25.00000% Atlantic Richfield Co. 25.00000% Chevron Oil Company 25.00000% Continental Oil Co. 25.00000% Total - 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
2	T-21-S, R-37-E, NW/4 SW/4 Sec. 11	40	Fee Lease	<p>Jules Daniels .390625% Helen Magruder Kolliker Trust .097656% Alfred E. Gutman 2.712673% Estate of Max Gutman 8.138021% Daniel L. Gutman 2.712675% Dorothy Gutman, Trustee, under the Trust of Charles Gutman 4.069010% Betty Gutttag 4.069010% Heien Magruder Kolliker .097656% Edith G. Socolon 2.712674% <u>Total - 25.000000%</u></p>	Aztec Oil Co. 100.00000%	Aztec Oil Co. 100.00000%
3	T-21-S, R-37-E, E/2 SW/4, SW/4, SW/4, Sec. 11	120	Fee Lease	<p>Jane Blain Baker .02170% H. W. Benischek .71614% Louise Benischek .67708% Ella F. Blain .02170% Esther L. Blain .02170% Percy W. Busby .09766%</p>	<p>Atlantic Richfield Co. 24.21875% Amoco Production Co. 24.21875% Chevron Oil Co. 24.21875% Continental Oil Co. 24.21875% John Hendrix 1.04166% A. W. Marshall .52084%</p>	<p>Atlantic Richfield Co. 24.21875% Amoco Production Co. 24.21875% Chevron Oil Co. 24.21875% Continental Oil Co. 24.21875% John Hendrix 1.04166% A. W. Marshall .52084%</p>

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
3 (Cont.)				Citizens National Bank & Trust Co., Oklahoma City, Trustee U/W Charles P. File, Dec'd .78125% Eugene Coffelt .01953% E. L. Cooper .03906% Frederick L. Ercoline .19531% Mary Gertrude Moran 1.56250% Paul W. Godfrey .09765% Lyndean Smith King .67709% Lucky Wright Royal Syd. .26042% Ann W. Marshall .00651% Raymond J. O'Connor .09766% Myrtle Pfile .78125% Philadelphia Nat'l Bank & Trust U/W/O J.W. Ward .06511% Betty Moran Rice 1.56250% George F. Senner, Jr. .15625% A. E. Smith .67708% Southwestern Baptist Theological Seminary 1.24349%	Morris & Irma Spear 1.56250% Total - 100.00000%	Morris & Irma Spear 1.56250% Total - 100.00000%

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EXHIBIT "B"
EAST BLINERY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
4 (Cont.)				U. G. Lemaster .11719% Muriel Terry McNeil Life Estate .19531% J. Hiram Moore, Betty Jane Moore & Michael Harrison Moore, Trustees of the Moore Trust .17578% J. L. Reynolds and Jessie M. Reynolds .07813% Carbert L. Sharp .39062% Shriners Hospital for Crippled Children .90820% June D. Speight 3.12500% Total - 12.50000%		
5	T-21-S, R-37-E, NW/4 SW/4, Sec. 12	40	Fee Lease	Roy G. Barton .56641% J. G. Burson 1.56250% Charles H. Coll .58594% James N. Coll .58593% Jon F. Coll .58594% Max W. Coll, II .58594% Ruth Terry Furneaux .19530%	Shell Oil Company 100.00000%	Shell Oil Company 100.00000%

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
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First National Bank of Roswell, Trustee of the Allie M. Lee Trust	2.72461%
Medora M. Lemaster	.11719%
U. G. Lemaster	.11719%
Muriel Terry McNeill	.19531%
J. Hiram Moore, Betty Jane Moore & Michael Harrison Moore, Trustees of the Moore Trust	.17578%
J. L. Reynolds and Jessie M. Reynolds	.07814%
Carbert L. Sharp	.39062%
Shriners Hospital for Crippled Children	.90320%
June D. Spaight	3.12500%
Total -	12.50000%

T-21-S, R-37-E, NE/4 SW/4, Sec. 12	40	Fee Lease		Shell Oil Co. 100.000000%
			Olga M. Atwood .15625%	
			New Mexico Bank & Trust Co., Acct. of Roy G. Barton & Opal Barton .56641%	
			Duce D. Bivins, Ind. Exec. of the Estate of Mayme Bivins Chesher 1.09375%	

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
6 (Cont.)				Charles H. Coll		
				.17577%		
				James N. Coll		
				.17578%		
				Jon F. Coll		
				.17579%		
				Max W. Coll, II		
				.17579%		
				Cal Farleys Boys Ranch		
				1.09375%		
				Ruth Terry Furneaux		
				.19531%		
				Kenneth Noel Headley		
				.62500%		
				Willie Bell Herron		
				.13888%		
				Frances Smyrl Jennings		
				.62500%		
				Eugene R. Lane		
				.04630%		
				Percy L. Lawrence		
				.62500%		
				First National Bank of Roswell Trustee of the Allie M. Lee Trust		
				.49804%		
				Medora M. Lemaster		
				.11719%		
				U. G. Lemaster		
				.11718%		
				L. T. Lewis Trust Estate		
				.62500%		
				Dolly E. Locke		
				.04630		
				John Long		
				.13888%		

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
6 (Cont.)						
				Oscar D. Long .13889		
				Ross L. Malone .31250%		
				Muriel Terry McNeil Life Estate .19532%		
				J. Hiram Moore, Betty Jane Moore & Michael Harrison Moore, Trustees of the Moore Trust .17578%		
				Mary E. O'Dell .13888%		
				Betty Ann Philley .04630		
				Lela May Rodgers .13889%		
				Irene Schuler .15625%		
				Carbert L. Sharp .07812%		
				Shriners Hospital for Crippled Children .16602%		
				Louis B. Jiewert .13889%		
				June D. Speight 3.12500%		
				Neomi L. Vaught .13889%		
				Frances Winkle .13889%		
				Total - 12.50000%		

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
7	T-21-S, R-37-E, SW/4 SW/4 Sec. 12	40	Fee Lease	Olga M. Atwood .15625% Roy G. Barton and Opal Barton .1.81641% F. E. Chartier and Peggy Chartier .17578% Duce D. Bivins, Ind. Exec. of the Estate of Mayme Bivins Chesher .1.09375% Charles H. Coll .17577% James N. Coll .17577% Jon F. Coll .17579% Max W. Coll, II .17579% Cal Farleys Boys Ranch .1.09375% Ruth Terry Furneaux .19531% Kenneth Noel Headley .62500% Frances Smyrl Jennings .62500% Percy L. Lawrence .62500% First Nat'l Bank of Roswell, Trustee of the Allie M. Lee Trust .49804% Medora M. Lemaster .11719%	Shell Oil Co. 100.00000%	Shell Oil Co. 100.00000%

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EXHIBIT "B"
EAST BLINDEY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
7 (Cont.)				U. G. Lemaster .11719% L. T. Lewis Trust Estate .62500% Ross L. Malone .31250% Muriel Terry McNeil Life Estate .19531% Irene Schuler .15625% Carbert L. Sharp .07813% Shriners Hospital for Crippled Children .16602% June D. Speight 3.12500% <u>Total - 12.500000%</u>		
8	T-21-S, R-37-E, SE/4 SW/4, Sec. 12	40	Fee Lease	New Mexico Bank & Trust Co. Acct. of Roy G. Barton .56641% Charles H. Coll .17577% James N. Coll .17578% Jon F. Coll .17579% Max W. Coll, II .17579% Ruth Terry Furneaux .19532% First Nat'l Bank of Roswell, Trustee of the Allie M. Lee Trust .49804%	Shell Oil Company 100.00000% Shell Oil Company 100.00000%	Shell Oil Company 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
8 (Cont.)				Medora M. Lemaster .11719%		
				U. G. Lemaster .11719%		
				Muriel Terry McNeil Life Estate .19531%		
				Virginia Denalta Mills 1.56250%		
				J. Hiram Moore, Betty Jane Moore & Michael Harrison Moore, Trustees of the Moore Trust .17578%		
				Denton M. Plumlee 1.56250%		
				Frances R. Reeves .52083		
				Helen E. Reeves .52083		
				Raymond Lynn Reeves .21158		
				William Bruce Reeves .21159		
				Carbert L. Sharp .39062%		
				Shriners Hospital for Crippled Children .16602%		
				Phyllis Fishback Snow 1.56250%		
				June Speight 3.12500%		
				Total - 12.50000%		

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	NO. OF ACRES	DESCRIPTION	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
9	40	T-21-S, R-37-E, SW/4 SE/4, Sec. 12	Fee Lease	Olga M. Atwood .15625% Roy G. Barton and Opal Barton .56641% F. E. Chartier and Peggy Chartier .17578% Duce D. Bivins, Ind. Exec. of Estate of Mayme Bivins Cheshier 1.09375% Charles H. Coll .17577% James N. Coll .17577% Jon F. Coll .17579% Max W. Coll, II .17579% Cal Farleys Boys Ranch 1.09375% Jimmie Fields and Ethel Fields 1.25000% Ruth Terry Furneaux .19531% Kenneth Noel Headley .62500% Frances Smyrl Jennings .62500% Percy L. Lawrence .62500% First Nat'l Bank of Roswell, Trustee of the Allie M. Lee Trust .49804%	Shell Oil Company 100.00000%	Shell Oil Company 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
9 (Cont.)				<p>Medora M. Lemaster .11719%</p> <p>U. G. Lemaster .11719%</p> <p>L. T. Lewis Trust Estate .62500%</p> <p>Ross L. Malone .31250%</p> <p>Muriel Terry McNeill Life Estate .19531%</p> <p>Irene Schuler .15625%</p> <p>Carbert L. Sharp .07813%</p> <p>Shriners Hospital for Crippled Children .16602%</p> <p>June D. Speight 3.12500%</p> <p>Total - 12.50000%</p>		
10	T-21-S, R-37-E, W/2 NW/4, Sec. 14	80	Fee Lease	<p>Albuquerque Nat'l Bank Testamentary Trustee of F. A. Andrews, Dec'd. 2.17008%</p> <p>Republic National Bank of Dallas & C. R. Mallison, Independent Executors U/W of Selma E. Andrews, Trust No. 241 2.51742%</p> <p>Atlantic Richfield Co. 3.12500%</p>	<p>Atlantic Richfield Co. 25.0000%</p> <p>Barbara M. Jerigan 14.4666%</p> <p>First Nat'l Bank of Midland, Trustee for John E. Moran Trust No. 1 Acct. #323 14.4666%</p> <p>R. Martin Moran 14.4666%</p>	<p>Atlantic Richfield Co. 25.0000%</p> <p>Barbara M. Jerigan 14.4666%</p> <p>First Nat'l Bank of Midland, Trustee for John E. Moran Trust No. 1 Acct. #323 14.4666%</p> <p>R. Martin Moran 14.4666%</p>

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
10 (Cont.)				Charles H. Coll .39062% James N. Coll .39062% Jon F. Coll .39063% Max W. Coll, II .39063% The First Nat'l Bank of Midland, Texas & Jessie Blevins Crump, Co-Trus- tees, Trust 1069 1.17187% Jessie B. Crump, David C. Blevins & Fort Worth National Bank, Trustees of the Joe and Jessie May Crump Fund No. 2312 1.17188% Hendrix Memorial Hospital 1.56250% The Wiser Oil Company 1.56250% <u>Total - 14.84375%</u>	Linda B. Parrish and Ben H. Parrish Trustee U/W of M.C. Parrish, Jr., dec'd, c/o Dana T. Richardson, Jr. 6.6002% Shell Oil Company 25.0000% <u>Total - 100.0000%</u>	Linda B. Parrish and Ben H. Parrish Trustee U/W of M.C. Parrish, Jr., dec'd, c/o Dana T. Richardson, Jr. 6.6002% Shell Oil Company 25.0000% <u>Total - 100.0000%</u>
11	T-21-S, R-37-E, E/2 NW/4 Sec. 14	80	Fee Lease	Albuquerque National Bank, Testamentary Trustee of F. A. Andrews, dec'd 2.89344% Republic National Bank of Dallas & C. R. Mallison, Independent Executors U/W of Selma E. Andrews, Trust No. 5188 3.35656%	Atlantic Richfield Co. 25.00000% Barbara M. Jerigan 3.61656% First Nat'l Bank of Midland, Trustee for John E. Moran Trust #1 Acct. 323 3.62657% R. Martin Moran 3.616459%	Atlantic Richfield Co. 25.00000% Barbara M. Jerigan 3.61656% First Nat'l Bank of Midland, Trustee for John E. Moran Trust #1 Acct. 323 3.62657% R. Martin Moran 3.616459%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
11 (Cont.)				<p>Atlantic Richfield Co. 3.12500% Charles H. Coll .39062% James N. Coll .39062% Jon F. Coll .39063% Max W. Coll, II .39063% First National Bank of Midland, Texas & Jessie Blevins Crump, Co-Trus- tees, Trust 1062 1.56250% Jessie B. Crump, David C. Blevins, & Fort Worth National Bank, Trustees of the Joe and Jessie Crump Fund #2312 1.56250% Hendrick Memorial Hospital 1.56250% The Wiser Oil Co. 1.56250% Total - 14.84375%</p>	<p>Linda Parrish and H. Parrish, Trus- tee U/W of M.C. Parrish, Jr., dec'd c/o Dana Richardson 1.65031% Shell Oil Company 62.50000% Total - 100.00000%</p>	<p>Linda Parrish and H. Parrish, Trus- tee U/W of M.C. Parrish, Jr., dec'd c/o Dana Richardson 1.65031% Shell Oil Company 62.50000% Total - 100.00000%</p>
12	T-21-S, R-37-E W/2 NE/4, Sec. 14	80	Fee Lease	<p>Louise Benischek .78125% J. R. Cone, et ux .39063% R. H. Fulton .19531% Getty Oil Company 4.10156</p>	<p>Shell Oil Company 100.00000%</p>	<p>Shell Oil Company 100.00000%</p>

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EXHIBIT "B"

EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
12 (Cont.)				<p>Lyndeann Smith King c/o Odessa Savings & Loan .78125%</p> <p>First National Bank of Roswell, Trustee of the Allie M. Lee Trust 2.34375%</p> <p>Jack Markham .19531%</p> <p>M. H. McGrath 1.56250%</p> <p>John J. Redfern, Jr. .39063%</p> <p>Charles D. Sands c/o Twin Falls Bank & Trust Company .39063%</p> <p>Shriners Hospital for Crippled Children .78125%</p> <p>A. E. Smith .78125%</p> <p>Tenneco Oil Company 3.12500%</p> <p>Mary Ellen Todd .78125%</p> <p>Total - 16.60157%</p>	<p>J. R. Cone 26.52337</p> <p>J. H. Herd 3.56254%</p>	<p>J. R. Cone 26.52338%</p> <p>J. H. Herd 3.56250%</p>
13	T-21-S, R-37-E, SW/4, Sec. 14	160	Fee Lease	<p>W. H. Anderson .781250%</p> <p>Roy G. Barton 2.940963%</p>	<p>J. R. Cone 26.52337</p> <p>J. H. Herd 3.56254%</p>	<p>J. R. Cone 26.52338%</p> <p>J. H. Herd 3.56250%</p>

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
13 (Cont.)				Roy G. Barton Jr. Opal Barton .130209% Elizabeth Bowers 1.953125% Marion C. Bowers .488282% Bobby Virginia Hides .488281% O. O. Eubanks .195313% Constance E. Byers .260417% Robert E. Byers .156250% Ronald J. Byers .156250% Total - 8.597000%	Jack Markham 23.32028% Redfern Oil Co. 5.34382% *Texaco Oil Company 41.25000% Total - 100.00000%	Jack Markham 23.32028% Redfern Oil Co. 5.34383% *Texaco Oil Company 41.25001% Total - 100.00000%
14	T-21-S, R-37-E, W/2 SE/4, Sec. 14	80	Fee Lease	Jack Markham .52080% Reese Cleveland .78120% John J. Redfern .78120% J. R. Cone 1.04170% Naomi Keenum 2.50000%	Gulf Oil Company 100.00000%	Gulf Oil Company 100.00000%

*Texaco Inc. owns 100% Mineral Fee Simple of 66/160 or 41.25%. Therefore, Texaco owns 87.5% of 41.25% Working Interest and 12.5% of 41.25% Royalty Interest.

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EXHIBIT "B"
EAST BLINDBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
14 (Cont.)				R. H. Fulton .52090% Ronald J. Byers .78120% R. O. Shaffer .20830% Constance E. Byers .78120% First National Bank of Lubbock, Trustee for James T.S. Welborn 1.04170% Lula B. Newton 1.25000% Mrs. Loreen H. Holland 1.15000% Sam Billingsley and Evelyn Billingsley .20840% First National Bank of Fort Worth, Trustee U/W of H. R. Clay .20830% Total - 12.50000%		
15	T-21-S, R-37-E, N/2 NW/4, NW/4 NE/4, Sec. 13	120	Fee Lease	N. B. Bunin Trust NMP 12.50000% Gulf Oil Corporation 5.46880% Total - 17.96880%	Summit Energy 100.00000%	Summit Energy 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
16	T-21-S, R-37-E, NW/4, Sec. 23	160	Fee Lease	Olga M. Atwood .44643% Roy G. Barton 1.11607% Constance E. Byers .17857% John J. Christmann .22878% Elliott Oil Company 1.33928% First National Bank of Roswell, Trustee of Nevada Children's Foundation, Inc. .66946% Fort Worth National Bank, Trustee U/W of Roy S. Magruder, dec'd .44643% Elizabeth Hannifin .44643% Helen Kolliker .44644% Jack Markham .20927% Jack Markham and Mary Boone Markham .44643% Mrs. Nora L. Markham .22321% Maude Fisher McBee .19531% George A. Moberly .22321	Devon Corporation and Getty Oil Co. 100.00000%	Devon Corporation and Getty Oil Co. 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
15 (Cont.)				Hayden M. Moberly .22322% Mrs. Fanny Gae Ratcliff Independent Executrix U/W of C. B. Markham .22322% Irene H. Schuler .44643% Shriners Hospital for Crippled Children, San Francisco Unit .22322% J. M. Welborn .11161% Reese Cleveland .89286% Hubert E. Cone .19531% J. R. Cone .11161% Mrs. Mary J. Dotson .44643% Texaco, Inc. 1.60714% Mrs. Eula I. Williamson 1.00446% Rueben I. Wolfson .19950% Sam Wolfson .19949% Total - 12.50000%		
17	T-21-S, R-37-E, W/2 NE/4, SE/4 NE/4, Sec. 23	120	Fee Lease	Roy Barton 1.116070% Ronald J. Byers .178570% Total - 12.50000%	Atlantic Richfield 100.000000% Atlantic Richfield 100.000000%	Atlantic Richfield 100.000000%

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EXHIBIT "B"
EAST BLINDBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGES	LESSEE OF RECORD	WORKING INTEREST OWNER & PERCENTAGE
17 (Cont.)				John J. Christmafn .228790%		
				Reese Cleveland .892800%		
				J. R. Cone .111610%		
				Hubert E. Cone .195310%		
				Mary J. Dotson .446430%		
				Elliot Oil Company 1.339290%		
				The First National Bank of Roswell, as Trustee of Allie M. Lee Trust .669650%		
				Fort Worth National Bank Trustee U/W of R. S. Magruder, Dec'd .446430%		
				Elizabeth Hannifin .446430%		
				Jack Markham .655690%		
				Nora L. Markham .223230%		
				Maude Fisher McBee .195310%		
				George A. Moberly .223210%		
				Hayden M. Moberly .223220%		
				Fannye Gae Ratcliff Executrix U/W of C. B. Markham, Dec'd .223210%		

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
17 (Cont.)				Irene H. Schuiter .446430% Shriners Hospitals for Crippled Children .223210% Texaco, Inc. Acc. #3 1.607140% J. M. Welborn .111610% <u>Total - 12.50000%</u>		
18	T-21-S, R-37-E, NE/4 NE/4, Sec. 23	40	Fee Lease	F. S. & Leta Blackman 3.12500% John J. Christmann & Patricia Johnson Christmann .52083% Herbert E. Cone .19531% S. P. Johnson, Jr. 2.08334% S. P. Johnson, III .52083% Jack Markham .09766% Maude Fisher McBee .19531% Eula I. Williamson 5.46875% R. I. Wolfson .08789% Sam Wolfson .08789% <u>Total - 12.50000%</u>	Mobil Oil Company 100.00000%	Mobil Oil Company 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
19	T-21-S, R-37-E, SW/4, Sec. 23	160	Fee Lease	Sarkeys, Inc. 12.500000%	Shell Oil Company 100.00000%	Shell Oil Company 100.00000%
20	T-21-S, R-37-E, SE/4, Sec. 23	160	Fee Lease	Sarkeys, Inc. 12.500000%	Atlantic Richfield Co. 100.00000%	Atlantic Richfield Co. 100.00000%
21	T-21-S, R-37-E, NW/4, Sec. 24	160	Fee Lease	Ralph J. Perrine .16240% Stella Donahue .29760% Lucille Evans .29760% Clara S. McKinley 1.78570% Clarence C. Schiffer 1.78570% Dora Etta Stephens 1.78570% Francis Stephens 1.78580% Grover C. Stephens 1.78580% John R. Graves and Clara M. Graves .59520% Francis M. Stephens and Ethel Stephens .29760% Johnnie Bryan .29760% Mrs. Edith Ivie .16240% Warren Vernon Donaway .16230%	Gulf Oil Company 100.00000%	Gulf Oil Company 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
21 (Cont.)				Mrs. Gertrude Reese .16240% Mrs. Oleta Hale .16240% Milton C. Donaway .16130% Mrs. Bonnie McCleskey .16230% Harlon Eugene Donaway .16230% Mrs. Mary Clark .16230% Gordon L. Donaway .16230% Mrs. Ida Hazelwood .16230% <u>Total - 12.50000%</u>		
22	T-21-S, R-37-E, W/2 SW/4, Sec. 24	80	Fee Lease	Johnnie Denman Bryan .19762 Mary Lou Clark .16234% Vernon Donaway .16234% Harlon Donaway .16235% Gordon Donaway .16234% Milton Donaway .16234% Stella Donahue .29762% Lucille Evans .29762% John R. Graves & Clara M. Graves .59524	Mobil Oil Company 100.00000%	Mobil Oil Company 100.00000%

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EXHIBIT "B"
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>DESCRIPTION</u>	<u>NO. OF ACRES</u>	<u>SERIAL NO. & EXPIRATION DATE OF LEASE</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGES</u>	<u>LESSEE OF RECORD</u>	<u>WORKING INTEREST OWNER & PERCENTAGE</u>
22 (Cont.)				Oleta Hale .16233%		
				Ida Hazelwood .16233%		
				Edith Ivie .16233%		
				Bonnie McCleskey .16234%		
				Clara McKinley 1.78572%		
				Ralph J. Perrine .16233%		
				Gertrude Reese .16233%		
				Clarence G. Schiffer 1.78571%		
				Dora Etta Stephens 1.78571%		
				Francis M. Stephens 1.78572%		
				Grover C. Stephens 1.78571%		
				Francis M. Stephens & Ethel Stephens .29762%		
				Total - 12.50000%		

EXHIBIT C
East Blinebry Unit
Lea County, New Mexico

<u>Tract Number</u>	<u>Tract Participation</u>	
	<u>Phase I</u>	<u>Phase II</u>
1	20.95295	38.63115
2	3.50048	1.65046
3	5.85722	4.69605
4	.68117	.97829
5	1.00210	1.66930
6	.06493	.89033
7	.93392	1.30432
8	.06493	.76108
9	.06494	.54497
10	5.09711	3.70817
11	2.79122	3.06820
12	4.30394	4.63359
13	7.62606	6.14413
14	3.32509	4.28786
15	4.54513	4.65318
16	7.49947	4.77864
17	5.26088	2.53521
18	1.11827	.40199
19	14.05695	6.53473
20	8.26202	4.92151
21	2.18447	2.29824
22	.80675	.90857
	<u>100.00000%</u>	<u>100.00000%</u>

EXHIBIT "D"
EAST BLINERRY UNIT
LEA COUNTY, NEW MEXICO

PROVISIONS OF SECTION 202 OF
EXECUTIVE ORDER 11246

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

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

"(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

"(4) The contractor will comply with all provisions of Executive Order No. 11246 of Sept. 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

"(5) The contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

"(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of Sept. 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by Law.

"(7) The contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of Sept. 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interest of the United States."

UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of August, 1976, by the parties who have signed the original of this instrument, a counter-part thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H :

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

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

The Unit Agreement for the East Blinebry Unit, Lea County, New Mexico and the Unit Agreement East Drinkard Unit, Lea County, New Mexico contemplate

a cooperative development of the two Units by the utilization of common well bores and the commingling of production in wells and surface facilities with production to be allocated 64.544% to the Unitized Formation of the East Blinebry Unit and 35.456% allocated to the Unitized Formation of the East Drinkard Unit as provided in Section 15 of each Unit Agreement. It is, therefore, understood that the two Unitized Formations shall be operated in common and all operations for each Unitized Formation shall be consistent and co-incidental, as if covered by one Operating Agreement containing the terms hereof.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A, B, C and D of the Unit Agreement.

2.1.2 Exhibit E, attached hereto, which is a schedule showing the Blinebry Unit Participation of each Working Interest Owner in each Tract, the interest attributable by Tract of each Working Interest Owner, and a schedule showing the combined Unit Participation of each Working Interest Owner. Exhibit E, or a revision thereof, shall not be conclusive as to the information therein, except it may be used to show the Unit Participation and Combined Unit Participation of the Working Interest Owners for the purpose of this agreement until shown to be in error or is revised as herein authorized.

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

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty-five Thousand Dollars (\$25,000.00); 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 more than Five Thousand Dollars (\$5,000).

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

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and

use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty-five Thousand Dollars (\$25,000.00); 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 more than Five Thousand Dollars (\$5,000).

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

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) be made that the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and

(d) be made upon not less than thirty (30) days' written
notice to Unit Operator.

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

3.2.9 Technical Services. The authorization 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 F.

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.

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 representa-
tive 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 Combined 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 pre-
vented from amending items included in the agenda or from deciding the amended

item or other items presented at the 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 voting interest equal to its Combined Unit Participation which is in effect as 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-five percent (65%) or more Voting Interest, provided however, that if any Working Interest Owner has a Voting Interest greater than or equal to sixty-five percent (65%) its vote must be supported by two or more Working Interest Owners having a combined Voting Interest greater than or equal to two percent (2%).

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 note 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 agree-
ment 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 gather-
ing 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. Atlantic Richfield Company is hereby
designated as initial Unit Operator.

6.2 Resignation or Removal. Unit Operator shall have the right
to resign at any time, but such resignation shall not become effective
so as to release Unit Operator from the duties and obligations of Unit
Operator and terminate Unit Operator's rights as such for a period of
six (6) months after written notice of intention to resign has been given
by Unit Operator to all Working Interest Owners and the Supervisor unless
a new Unit Operator shall have taken over and assumed the duties and
obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator shall be subject to removal by Working Interest Owners having in the aggregate seventy-five percent (75%) or more Voting Interest then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commission and the Supervisor.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager, as defined in Section 2(s) of the Unit Agreement, to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations and owned by the Working Interest Owners to the duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation

of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

6.3 Selection of Successor. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. 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 Supervisor. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Director, as his election, may declare this Agreement terminated.

In selecting a successor Unit Operator the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Voting Interest shall prevail; provided, that if any one Working Interest Owner has a Voting Interest of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Voting Interest of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Voting Interest remaining after excluding the Voting Interest of Unit Operator so removed.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations 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 logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty-Five Thousand Dollars (\$25,000.00) 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.

7.11 Border Agreements. Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

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:

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

9.1.2 Carry Workmen's 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 G.

ARTICLE 10

ADJUSTMENTS AND INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation,
as required in Article 11 herein.

10.1.2 Wells and Lease Equipment. The casing and tubing in
each such well, the wellhead connections thereon, and all other
well, 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 as promptly as possible to the
Working Interest Owners who delivered same to Unit Operator; pro-
vided, 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 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; provided, however, that such provisions not-
withstanding, any and all property retained by Unit Operator for
use in Unit Operations after the expiration of said one year period
shall be considered taken over under this agreement unless mutually
agreed otherwise between Unit Operator and the Working Interest
Owners who delivered such property to Unit Operator.

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

10.2 Exchange of Interest In Personal Property. Each Working Inter-
est Owner hereby exchanges its interest in all of the personal property

described in Sections 10.1.1 and 10.1.2 for its proportionate Combined Unit Participation as set out in Exhibit E, in all such property described in Sections 10.1.1 and 10.1.2.

10.3 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit F except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.4 Investment Adjustment. Upon approval by Working Interest Owners of such inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property, except as provided in Article 10.5 hereof, taken over by Unit Operator under Article 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Article 10.1.2 by such Working Interest Owner's Combined Unit Participation during Phase II, as shown on Exhibit "E". 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. Except as pro-
vided under Article 10.3 pricing of inventory will be in accordance with
Article VI of Exhibit "F" hereof.

10.5 Adjustment of Investments of Gas Wells Only. Upon approval
by Working Interest Owners of such inventory and evaluation, each Working
Interest Owner shall be credited with the value, as determined in accord-
ance with Section 10.3 above, of its interest in all personal property as
to gas wells only 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 gas well personal property taken over by Unit Operator
under Section 10.1.2 by such Working Interest Owner's Combined Phase I
Unit Participation, as shown on Exhibit E hereof. 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 charge-
able 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 settle-
ment of the net charges described above.

10.6 Readjustment of Inventory of Gas Wells. Effective as of the
end of Phase I, the capital investment account of gas wells only of the
Working Interest Owners hereunder shall be readjusted between them on the
basis of their respective Combined Phase II Unit Participation as shown
in Exhibit E hereof. For the purposes of such readjustment of such gas

well capital investment account personal property and facilities taken over by Unit Operator pursuant to Article 10.1.2 and 10.5 hereof, shall be valued at the same value at which such personal property and facilities were taken over and all subsequent capital investments, both tangible and intangible, shall be valued at the original cost charged to the joint account. Gas well capital assets retired prior to the effective date of such readjustment shall be eliminated from the capital investment account on the same basis of evaluation. Each Working Interest Owner shall be charged or credited with the net cash amount necessary to effect such readjustment of the capital investment account, and such charges and credits shall be settled in the same manner as the charges and credits referred to in Section 10.5.

10.7 Intangible Development Costs. Each Working Interest Owner exchanges its intangible development costs with respect to its Tract or Tracts for its proportionate interest in such intangible costs incurred in the Unit Area and no cash adjustment shall be made between Working Interest Owners on account of this adjustment.

10.8 No Assignment of Leases. Nothing contained herein, or in said Unit Agreement, shall be construed to require or result in a transfer of title to any Tract or lease thereon, either in whole or in part, from one Working Interest Owner to another; however, if notwithstanding such express intent of the parties to that effect, any of the provisions of this agreement or the Unit Agreement should be construed, by implication or otherwise, as effecting any cross-assignment of the oil and gas leases and leasehold rights upon or with respect to the Tracts in the Unit Area, then it shall be considered that each Working Interest Owner shall have exchanged

its interest in the oil and gas leases upon the Tracts as described
and shown on Exhibits A and B insofar as the Unitized Formation is
concerned for its proportionate part, as shown in Exhibit E, of the
entire leasehold interest in the Unitized Formation and that no cash
adjustment shall be made between Working Interest Owners because of
such exchange.

10.9 General Facilities. The acquisition of warehouse, 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.

WELL BORES

11.1 Well Bores. It is recognized that as to each forty (40) acre
subdivision of the Unit Area, as shown on Exhibit A of the Unit Agreement,
there is or has been at sometime in the past production of either Blinebry
Unitized Substances, or production from the Drinkard formation as defined
in the East Drinkard Unit Agreement dated August 1, 1976, except as to the
SE/4 NW/4 of Section 24, T-21-S, R-37-E, which forty (40) acre subdivision
shall be considered exempt from the provision of this Article 11.1. As of
the effective date of the Unit Agreement each forty (40) acre subdivision
of any tract committed hereto shall be required to have a well bore which in
the opinion of the Working Interest Owners is usable for producing Unitized
Substances or for injecting Outside Substances into the deeper of the Unitized
Formations under this agreement, or under the cooperative plan provided in
Section 15 of the Unit Agreement. Said well bore shall be used exclusively
by the Unit Operator for the production of Unitized Substances or for

converting to be used for injecting water or any other substances as 1
provided herein or under the cooperative plan provided in Section 15 of the 2
Unit Agreement. If any forty acre subdivision does not have a usable well 3
bore as above provided the party or parties contributing same shall have 4
the option for ninety (90) days from such Effective Date within which to 5
restore, redrill, plug back, drill deeper, clean out, or use whatever means 6
necessary to provide a usable well bore acceptable to Working Interest Owners. 7
At the end of said ninety (90) day period if a usable well bore has not been 8
provided, Working Interest Owners shall have the right, but not the obligation, 9
to reenter, rework or clean out any well bore not then producing hydrocarbons 10
or take whatever action deemed necessary by Working Interest Owners, includ- 11
ing the drilling of a new well, to provide a usable well bore in such forty 12
(40) acre subdivision. If Working Interest Owners approve by vote and 13
exercise their right as above provided the party or parties contributing 14
the forty (40) acre subdivision in which the unusable well bore was located 15
shall bear all cost and expenses in connection therewith up to and including 16
\$200,000. If the operation costs in excess of \$200,000, the additional cost 17
in excess of \$200,000 will be considered Unit cost and charged to the Working 18
Interest Owners on the basis of their Phase II Combined Unit Participation. In 19
lieu of said cash payment up to and including \$200,000 said party or parties 20
may notify the Working Interest Owners that it elects not to pay in cash 21
its share of said costs but instead will bear such costs out of its share 22
of Unit Production. The Working Interest Owners would then have the option, 23
but not the obligation, to pay said party or parties' share of costs up to 24
and including \$200,000. If the Working Interest Owners elect to pay such 25
costs, then upon the commencement of operations by the Working Interest 26

Owners in accordance with the provisions of this section the party or parties contributing the unusable well shall be deemed to have relinquished to the Working Interest Owners, and the Working Interest Owners shall own and be entitled to receive, in proportion to the Combined Unit Participation remaining after excluding the interest of the party or parties contributing the unusable well, all of said party or parties' interest in the East Blinebry and East Drinkard Unit, and share of production therefrom until the proceeds or market value thereof shall equal that amount paid by the Working Interest Owners, together with interest thereon at the rate as specified in Exhibit "F" hereof.

ARTICLE 12

UNIT EXPENSE

12.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expense on the basis set forth in 12.1.1, 12.1.2, 12.1.3, and 12.1.4. All charges, credits, and accounting for costs and expenses shall be in accordance with Exhibit F.

12.1.1 Capital Costs. Except as provided in 12.1.2 below, Capital Costs, to be determined in accordance with Operator's regular practices shall be shared and borne by the Working Interest Owners in proportion to their Phase II Combined Unit Participating Interest, as shown in Exhibit D hereof.

12.1.2 Capital Costs to Gas Wells Only. Capital Costs, as to gas wells only, to be determined in accordance with Unit Operator's regular practices shall be shared and borne by the Working Interest Owners in proportion to their then Combined Participation, as set forth herein.

12.1.3 Operating Costs and Expenses. Operating costs and expenses incurred from month to month during Unit Operations shall be shared and borne by the Working Interest Owners in proportion to their then Combined Unit Participation, as set forth in Exhibit E.

12.1.4 Cost of Water. The cost of all water purchased for waterflood purposes shall be paid on the basis of Phase II Combined Unit Participation as set forth herein.

12.2 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 July 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.

12.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, 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 after receipt of such estimate, 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.

12.4 Commingling of Funds. Funds received by Unit Operator under this agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

12.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate as specified in Exhibit "F" hereof. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien, rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each Purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

12.6 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 Expense shall be subrogated to the lien and other rights herein granted Unit Operator.

12.7 Carved-out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 12.5 hereof entitled "Lien and Security Interest Of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 18 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense 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 Section 12.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

12.8 Uncommitted Royalty. Should an owner of a Royalty Interest in

any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Combined Unit Participations at the time the Unitized Substances were produced; 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 13

NONUNITIZED FORMATIONS

13.1 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 a formation underlying the Unit Area other than the Unitized Formation or the Drinkard Formation as defined in the Unit Agreement, East Drinkard Unit, Lea County, New Mexico, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with the Unit Operations. No Working Interest Owner, other than the Unit Operator, 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 be affected adversely.

13.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation and capable of producing Unitized Substances in paying quantities within the Unit Area or any enlargement thereof shall ever be completed as a multiple completion with the Unitized Formation and any other formation unless the other formation is the Drinkard Formation as defined in the Unit Agreement, East Drinkard Unit, Lea County, New Mexico unless such multiple completion and the subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedures as set out in Article 4.3.2 of this Agreement.

ARTICLE 14

TITLES

14.1 Representation and Indemnity. Each Working Interest Owner represents that it is the owner of the respective Working Interests set forth opposite its name in Exhibit E, and 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 because of Unit Operations; however, such indemnity and any liability 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 7:00 a.m. on 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 a title failure.

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

ARTICLE 15

LIABILITY, CLAIMS, AND SUITS

15.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners, except as expressly otherwise provided in Article 6.2 hereof, 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.

15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Five Thousand Dollars (\$5,000.00) for each or combined provided that 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 rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall

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

ARTICLE 15

LIABILITY, CLAIMS, AND SUITS

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15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Five Thousand Dollars (\$5,000.00) for each or combined provided that 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 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 16

INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision. Notwithstanding any provisions herein
that the rights and liabilities of the parties hereunder are several and not
joint or collective and that this agreement and the operations hereunder shall
not constitute a partnership, if for Federal income tax purposes this agree-
ment 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. Unit 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 7.761. 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 pro-
perty 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 the Code is permitted, each of the parties 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 such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 17

NOTICES

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

ARTICLE 18

WITHDRAWAL OF WORKING INTEREST OWNER

18.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all of its Oil and Gas Rights in the Unitized Formation, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of the instrument accomplishing such transfer. The delivery of the instrument of transfer may be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their

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respective Combined Unit Participations. The transferees, in proportion to
the respective interests so acquired, shall pay transferor for its interest
in Unit Equipment, the salvage value thereof less its share of the esti-
mated cost of salvaging same and of plugging and abandoning all wells
then being used or held for Unit Operations, as determined by Working
Interest Owners. In the event such withdrawing owner's interest in the
aforesaid salvage value is less than such owner's share of such estimated
costs, the withdrawing owner, as a condition precedent to withdrawal,
shall pay the Unit Operator, for the benefit of Working Interest Owners
succeeding to its interest, a sum equal to the deficiency. Within sixty
(60) days after receiving delivery of the instrument of transfer, Unit
Operator shall render a final statement to the withdrawing owner for its
share of Unit Expense, including any deficiency in salvage value, as
determined by Working Interest Owners, incurred as of the first day of the
month following the date of receipt of the instrument of transfer. Pro-
vided all Unit Expense, including any deficiency hereunder, due from the
withdrawing owner has been paid in full within thirty (30) days after the
rendering of such final statement by the Unit Operator, the transfer shall
be effective the first day of the month following receipt by Unit Operator
of the instrument of transfer and, as of such effective date, withdrawing
owner shall be relieved from all further obligations and liabilities here-
under and under the Unit Agreement, and the rights of the withdrawing Work-
ing Interest Owner hereunder and under the Unit Agreement shall cease insofar
as they existed by virtue of the interest transferred.

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18.2 Limitation on Withdrawal. Notwithstanding anything set forth
in Section 18.1, Working Interest Owners may refuse to permit the withdrawal

of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

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 the 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 wellhead equipment only excluding the value of casing not included in Investment adjustment under 10.3 and 10.4. 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 21, (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 excluding the value of casing not included in Investment adjustment under 10.2 and 10.3, and equipment in and on the wells taken over, as determined by Working Interest

Owners, and by agreeing to plug properly each well in compliance
with applicable laws and regulations at such times 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
in compliance with applicable laws and regulations.

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 respect-
ive Combined Unit Participations during the Phase in which such sal-
vaging, liquidation, or other distribution occurs.

21.1.5 Distribution of Assets. Working Interest Owners shall
share in the distribution of Unit Equipment, or the proceeds thereof,
in proportion to their Combined Unit Participation.

ARTICLE 22

EXECUTION

22.1 Original, Counterpart, or Other Instrument. An owner of a
Working Interest 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 provision hereof shall be

covenants running with the lands, leases, and interest covered hereby,
and shall be binding upon and inure to the benefit of the parties hereto
and their heirs, devisees, legal representatives, successors, and
assigns.

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.

ATLANTIC RICHFIELD COMPANY
UNIT OPERATOR AND WORKING INTEREST OWNER

DATE: _____

BY: _____
Attorney-in-Fact

THE STATE OF TEXAS I

COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this ____ day
of _____, 1977, by _____,
Attorney-in-Fact for Atlantic Richfield Company, a Pennsylvania corporation,
on behalf of said corporation.

My commission expires:

Notary Public in and for
Midland County, Texas

EXHIBIT "E"
Attached to
UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	WORKING INTEREST OWNER	PERCENTAGE UNIT PARTICIPATION	
		PHASE I	PHASE II
1	Amoco Production Co.	5.2382375	9.6577875
	Atlantic Richfield Co.	5.2382375	9.6577875
	Chevron Oil Co.	5.2382375	9.6577875
	Continental Oil Co.	5.2382375	9.6577875
		<u>20.9529500</u>	<u>38.6311500</u>
2	Aztec Oil & Gas Co.	3.50048	1.65046
		<u>3.50048</u>	<u>1.65046</u>
3	Amoco Production Co.	1.418545	1.137325
	Atlantic Richfield Co.	1.418545	1.137325
	Chevron Oil Co.	1.418545	1.137325
	Continental Oil Co.	1.418545	1.137325
	John Hendrix	.0610123	.0489169
	Ann W. Marshall	.030507	.0244589
	Morris & Irma Spear	.0915191	.0733758
		<u>5.85722</u>	<u>4.69605</u>
4	Shell Oil Co.	.68117	.97829
		<u>.68117</u>	<u>.97829</u>
5	Shell Oil Co.	1.00210	1.66930
		<u>1.00210</u>	<u>1.66930</u>
6	Shell Oil Co.	.06493	.89033
		<u>.06493</u>	<u>.89033</u>
7	Shell Oil Co.	.93392	1.30432
		<u>.93392</u>	<u>1.30432</u>
8	Shell Oil Co.	.06493	.76108
		<u>.06493</u>	<u>.76108</u>
9	Shell Oil Co.	.06494	.54497
		<u>.06494</u>	<u>.54497</u>

EXHIBIT "E"
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UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

TRACT NO.	WORKING INTEREST OWNER	PERCENTAGE UNIT PARTICIPATION	
		PHASE I	PHASE II
10	Atlantic Richfield Co.	1.274277	.927043
	B. M. Jernigan	.737378	.536446
	John E. Moran (Trust)	.737378	.536446
	Robert M. Moran	.737378	.536446
	M. C. Parrish, Jr. (Estate)	.3364194	.244747
	Shell Oil Co.	1.274278	.927043
		<u>5.09711</u>	<u>3.70817</u>
11	Atlantic Richfield Co.	.69781	.76705
	B. M. Jernigan	.100946	.110963
	John E. Moran (Trust)	.100946	.110963
	Robert M. Moran	.100946	.110963
	M. C. Parrish, Jr. (Estate)	.046064	.050635
	Shell Oil Co.	1.744513	1.917625
		<u>2.79122</u>	<u>3.06820</u>
12	Shell Oil Co.	4.30394	4.63359
		<u>4.30394</u>	<u>4.63359</u>
13	J. R. Cone	2.02269	1.62963
	J. H. Herd	.27168	.218885
	Jack Markham	1.77842	1.432828
	Redfern Oil Co.	.407524	.328332
	Texaco	3.145751	2.534454
		<u>7.62606</u>	<u>6.14413</u>
14	Gulf Oil Co.	3.32509	4.28786
		<u>3.32509</u>	<u>4.28786</u>
15	Summit Energy, Inc.	4.54513	4.65318
		<u>4.54513</u>	<u>4.65318</u>
16	Devon Corp. & Getty Oil Co.	7.49947	4.77864
		<u>7.49947</u>	<u>4.77864</u>
17	Atlantic Richfield Co.	5.26088	2.53521
		<u>5.26088</u>	<u>2.53521</u>

EXHIBIT "E"
Attached to
UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>WORKING INTEREST OWNER</u>	<u>PERCENTAGE UNIT PARTICIPATION</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
18	Mobil Oil Co.	<u>1.11827</u> 1.11827	<u>.40199</u> .40199
19	Shell Oil Co.	<u>14.05695</u> 14.05695	<u>6.53473</u> 6.53473
20	Atlantic Richfield Co.	<u>8.26202</u> 8.26202	<u>4.92151</u> 4.92151
21	Gulf Oil Co.	<u>2.18447</u> 2.18447	<u>2.29824</u> 2.29824
22	Mobil Oil Co.	<u>.80675</u> .80675	<u>.90857</u> .90857
		<u>100.00000%</u>	<u>100.00000%</u>

WORKING INTEREST PARTICIPATION
EAST BLINEBRY UNIT

<u>WORKING INTEREST OWNERS</u>	<u>TRACT</u>	<u>PARTICIPATION</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
Amoco	1	5.2382375	9.6577875
	3	1.418545	1.137325
		<u>6.65678</u>	<u>10.79511</u>
Atlantic Richfield Co.	1	5.2382375	9.6577875
	3	1.418545	1.137325
	10	1.274277	.927043
	11	.69781	.76705
	17	5.26088	2.53521
	20	8.26202	4.92151
		<u>22.15177</u>	<u>19.94593</u>
Aztec Oil & Gas Co.	2	3.50048	1.65046
Chevron Oil Co.	1	5.2382375	9.6577875
	3	1.418545	1.137325
		<u>6.65678</u>	<u>10.79511</u>
J. R. Cone	13	2.02269	1.62963
		<u>2.02269</u>	<u>1.62963</u>
Continental Oil Co.	1	5.2382375	9.6577875
	3	1.418545	1.137325
		<u>6.65678</u>	<u>10.79511</u>
Devon Corp. & Getty Oil Co.	16	7.49946	4.77865
		<u>7.49946</u>	<u>4.77865</u>
Gulf Oil Co.	14	3.32509	4.28786
	21	2.18447	2.29824
		<u>5.50956</u>	<u>6.58610</u>
John Hendrix	3	.0610123	.0489169
		<u>.0610123</u>	<u>.0489169</u>
J. H. Herd	13	.27168	.218885
		<u>.27168</u>	<u>.218885</u>
Hondo Drilling Co.		*	*

WORKING INTEREST PARTICIPATION
EAST BLINEBRY UNIT

<u>WORKING INTEREST OWNERS</u>	<u>TRACT</u>	<u>PARTICIPATION</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
B. M. Jernigan	10	.737378	.536446
	11	<u>.100946</u>	<u>.110963</u>
		.83832	.64741
Jack Markham	13	1.77842	1.43283
		<u>1.77842</u>	<u>1.43283</u>
Ann W. Marshall	3	.030507	.0244589
		<u>.030507</u>	<u>.0244589</u>
Mobil Oil Co.	18	1.11827	.40199
	22	<u>.80675</u>	<u>.90857</u>
		1.92502	1.31056
John E. Moran (Trust)	10	.737378	.536446
	11	<u>.100946</u>	<u>.110963</u>
		.83832	.64741
Robert M. Moran	10	.737378	.536446
	11	<u>.100946</u>	<u>.110963</u>
		.83832	.64741
Linda P. Parrish		*	*
M. C. Parrish, Jr. (Estate)	10	.3364194	.244747
	11	<u>.046064</u>	<u>.050635</u>
		.38248	.29538
Redfern Oil Co.	13	.407524	.328332
		<u>.407524</u>	<u>.328332</u>
Linda P. Richardson, (Trustee)		*	*
Mrs. Ross Sears		*	*
Mrs. S. Seeber		*	*

WORKING INTEREST PARTICIPATION
EAST BLINEBRY UNIT

<u>WORKING INTEREST OWNERS</u>	<u>TRACT</u>	<u>PARTICIPATION</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
Shell Oil Co.	4	.68117	.97829
	5	1.00210	1.66930
	6	.06493	.89033
	7	.93392	1.30432
	8	.06493	.76108
	9	.06494	.54497
	10	1.274278	.9270425
	11	1.744513	1.917625
	12	4.30394	4.63359
	19	14.05695	6.53473
		<u>24.19167</u>	<u>20.16131</u>
Morris & Irma Spear	3	.0915191	.0733758
		<u>.0915191</u>	<u>.0733758</u>
Summit Energy, Inc.	15	4.54513	4.65318
		<u>4.54513</u>	<u>4.65318</u>
Texaco, Inc.	13	3.145751	2.534454
		<u>3.145751</u>	<u>2.534454</u>
Mrs. V. J. Vandiver		*	*
S. D. Young		*	*
		<u><u>100.00000%</u></u>	<u><u>100.00000%</u></u>

* No Blinebry Interest

PHASE I: COMBINED PARTICIPATION
EAST BLINEBRY UNIT - EAST DRINKARD UNIT

<u>WORKING INTEREST OWNER</u>	<u>BLINEBRY (64.544%)</u>	<u>DRINKARD (35.456%)</u>	<u>TOTAL PARTICIPATION AND VOTING INTEREST PHASE I</u>
Amoco Production	4.29652	2.18089	6.47741
Atlantic Richfield Co.	14.29764	5.13571	19.43335
Aztec Oil & Gas Co.	2.25935	2.36844	4.62779
Chevron Oil Co.	4.29655	2.18089	6.47744
J. R. Cone ✓	1.30553	.58853	1.89406
Continental Oil Co.	4.29655	2.18089	6.47744
Devon Corp. & Getty Oil Co.	4.84046	4.12833	8.96879
Gulf Oil Co.	3.55609	5.00770	8.56379
John Hendrix	.03938	.01465	.05403
J. H. Herd ✓	.17535	.07905	.25440
Hondo Drilling Co.	*	.34116	.34116
B. M. Jernigan	.54109	.19374	.73483
Jack Markham ✓	1.14786	.51746	1.66532
Ann W. Marshall	.01969	.00733	.02702
Mobil Oil Co.	1.24248	.51042	1.75290
John E. Moran (Trust)	.54109	.19374	.73483
Robert M. Moran	.54109	.25231	.79340
Linda P. Parrish	*	.03441	.03441
M. C. Parrish, Jr. (Estate)	.24687	.07293	.31980
Redfern Oil Co. ✓	.26303	.11858	.38161
Linda P. Richardson (Trustee)	*	.04987	.04987
Mrs. Ross Sears	*	.11714	.11714
Mrs. S. Seeber	*	.05857	.05857
Shell Oil Co.	15.61427	7.91662	23.53089
Morris & Irma Spear	.05907	.02198	.08105
Summit Energy, Inc.	2.93361	.09365	3.02726
Texaco, Inc. ✓	2.03039	.91531	2.94570
Mrs. V. J. Vandiver	*	.05857	.05857
S. D. Young	*	.11714	.11714
	<u>64.544%</u>	<u>35.456%</u>	<u>100.00000%</u>

* No Blinebry Interest

PHASE II: COMBINED PARTICIPATION
EAST BLINEBRY UNIT - EAST DRINKARD UNIT

<u>WORKING INTEREST OWNER</u>	<u>BLINEBRY (64.544%)</u>	<u>DRINKARD (35.456%)</u>	<u>TOTAL PARTICIPATION AND VOTING INTEREST PHASE II</u>
Amoco Production Co.	6.967595	1.88384	8.85144
Atlantic Richfield Co.	12.87390	6.59062	19.46452
Aztec Oil & Gas Co.	1.06527	1.53563	2.60090
Chevron Oil Co.	6.967595	1.88384	8.85144
J. R. Cone ✓	1.051828✓	1.16819	2.22002✓
Continental Oil Co.	6.967595	1.88384	8.85144
Devon Corp. & Getty Oil Co.	3.084332	1.91307	4.99741
Gulf Oil Co.	4.25093	2.85907	7.11000
John Hendrix	.031573	.01685	.04842
J. H. Herd ✓	.141277✓	.15690	.29818✓
Hondo Drilling Co.	*	.61001	.61001
B. M. Jernigan	.41787	.55218	.97005
Jack Markham ✓	.92481✓	1.02711	1.95192✓
Ann W. Marshall	.01579	.00842	.02421
Mobil Oil Co.	.84589	.76018	1.60607
John E. Moran (Trust)	.41786	.55218	.97004
Robert M. Moran	.41786	.65691	1.07477
Linda P. Parrish	*	.06152	.06152
M. C. Parrish, Jr. (Estate)	.19065	.22428	.41493
Redfern Oil Co. ✓	.21192✓	.23536	.44728✓
Linda P. Richardson (Trustee)	*	.08918	.08918
Mrs. Ross Sears	*	.20945	.20945
Mr. S. Seeber	*	.10472	.10472
Shell Oil Co.	13.01292	8.30259	21.31551
Morris & Irma Spear	.04736	.02527	.07263
Summit Energy, Inc.	3.00335	.01381	3.01716
Texaco, Inc. ✓	1.63584✓	1.81680	3.45264✓
Mrs. V. J. Vandiver	*	.10472	.10472
S. D. Young	*	.20945	.20945
	<u>64.544%</u>	<u>35.456%</u>	<u>100.00000%</u>

8.37004%

* No Blinebry Interest

EXHIBIT "F"

Attached to and made a part of Unit Operating Agreement
EAST BLINERY UNIT
LEA COUNTY, NEW MEXICO

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-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 field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of First Level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
 - C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
 - D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.
3. **Employee Benefits**
Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).
4. **Material**
Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.
5. **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
 - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
 - B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
 - C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.
6. **Services**
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.
7. **Equipment and Facilities Furnished by Operator**
 - A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
 - B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.
8. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
9. **Legal Expense**
Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD**1. Overhead - Drilling and Producing Operations**

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1,188.00
Producing Well Rate \$ 155.00
Injection well rate for each zone injected
into through separate tubing strings \$ 155.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1,188.00

Producing Well Rate \$ 155.00

Injection well rate for each zone injected
into through separate tubing strings \$115.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 50,000:

- A. $\frac{5}{100}$ % of total costs if such costs are more than \$ 50,000 but less than \$ 500,000; plus
 B. $\frac{3}{100}$ % of total costs in excess of \$ 500,000 but less than \$1,000,000; plus
 C. $\frac{2}{100}$ % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "G"

ATTACHED TO AND MADE A PART OF
THE UNIT OPERATING AGREEMENT
EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO
AUGUST 1, 1976

ADDITIONAL INSURANCE PROVISIONS

OPERATOR, during the term of this Agreement, shall carry specific insurances for the benefit and at the expense of the parties hereto as follows:

- (A) Workmen's Compensation Insurance as contemplated by the laws of the state in which operations will be conducted, and Employers' Liability Insurance with limits of \$100,000 per employee and \$100,000 per accident.
- (B) OPERATOR shall require contractors and subcontractors performing work for the joint account to provide such insurance as deemed necessary by OPERATOR in relation to the work to be performed by said contractors or subcontractors.

Liability, except that covered by the above specified insurance, against any of the parties hereto for damages to property of third persons or injury to or death of third persons arising out of the joint operations, including expenses incurred in defending claims or actions asserting liability of this character, shall be borne severally and not jointly by the parties hereto in proportion to their respective Combined Unit Participation in the joint operation. Any party hereto individually may acquire such additional insurance as it desires to protect itself against any liability not covered by the above specified insurance at its own cost. All insurance purchased individually by a party to this agreement shall contain a waiver by the insurance company of all rights of subrogation in favor of the parties to this agreement.

No other insurances shall be carried by operator for the joint account unless mutually agreed to by the parties hereto. All losses not covered by the above specified insurances shall be borne by the parties in proportion to their interest in the venture at the time of the loss.

Inasmuch as OPERATOR has agreed with each party to this agreement to acquire, construct, operate and maintain the joint account operations on a cost basis without profit to OPERATOR, each such party hereby releases from all claims for loss by or damage to, such party arising out of, in connection with, or as an incident to, any act or omission, including negligence (but excluding gross negligence, willful misconduct, or intentional breach of any provision of the operating agreement) of OPERATOR or, to the extent of OPERATOR'S legal liability, its employees, agents or contractors, in acquiring, operating or maintaining the joint account; provided this release shall not apply to OPERATOR'S pro-rata share of the cost and expenses as otherwise provided in this agreement. The obligations of each party under this agreement are several and not joint with any other party hereto.

OPERATOR shall promptly notify non-operators of any loss, damage or claim not covered by insurance carried by OPERATOR for the joint account. Except as authorized by Article 9 and by this Exhibit "F", OPERATOR shall not make any charge to the joint account for insurance premiums.

EXHIBIT "G"

ATTACHED TO AND MADE A PART OF
THE UNIT OPERATING AGREEMENT
EAST BLINEDRY UNIT
LEA COUNTY, NEW MEXICO
AUGUST 1, 1976

ADDITIONAL INSURANCE PROVISIONS

OPERATOR, during the term of this Agreement, shall carry specific insurances for the benefit and at the expense of the parties hereto as follows:

- (A) Workmen's Compensation Insurance as contemplated by the laws of the state in which operations will be conducted, and Employers' Liability Insurance with limits of \$100,000 per employee and \$100,000 per accident.
- (B) OPERATOR shall require contractors and subcontractors performing work for the joint account to provide such insurance as deemed necessary by OPERATOR in relation to the work to be performed by said contractors or subcontractors.

Liability, except that covered by the above specified insurance, against any of the parties hereto for damages to property of third persons or injury to or death of third persons arising out of the joint operations, including expenses incurred in defending claims or actions asserting liability of this character, shall be borne severally and not jointly by the parties hereto in proportion to their respective undivided interests in the joint operation. Any party hereto individually may acquire such additional insurance as it desires to protect itself against any liability not covered by the above specified insurance at its own cost. All insurance purchased individually by a party to this agreement shall contain a waiver by the insurance company of all rights of subrogation in favor of the parties to this agreement.

No other insurances shall be carried by operator for the joint account unless mutually agreed to by the parties hereto. All losses not covered by the above specified insurances shall be borne by the parties in proportion to their interest in the venture at the time of the loss.

Inasmuch as OPERATOR has agreed with each party to this agreement to acquire, construct, operate and maintain the joint account operations on a cost basis without profit to OPERATOR, each such party hereby releases from all claims for loss by or damage to, such party arising out of, in connection with, or as an incident to, any act or omission, including negligence (but excluding gross negligence, willful misconduct, or intentional breach of any provision of the operating agreement) of OPERATOR or, to the extent of OPERATOR'S legal liability, its employees, agents or contractors, in acquiring, operating or maintaining the joint account; provided this release shall not apply to OPERATOR'S pro-rata share of the cost and expenses as otherwise provided in this agreement. The obligations of each party under this agreement are several and not joint with any other party hereto.

OPERATOR shall promptly notify non-operators of any loss, damage or claim not covered by insurance carried by OPERATOR for the joint account. Except as authorized by Article 9 and by this Exhibit "F", OPERATOR shall not make any charge to the joint account for insurance premiums.

EXHIBIT "H"

ATTACHED AND MADE A PART OF
THE UNIT OPERATING AGREEMENT

EAST BLINEBRY UNIT
LEA COUNTY, NEW MEXICO

AUGUST 1, 1976

- f. During the performance of this agreement and to the extent required by Executive Order 11246 signed by the President of the United States of America on September 24, 1965, as amended, and the rules, regulations and orders issued thereunder, or any contract between Operator and any government contracting agency. Operator agrees as follows:
1. Operator will not discriminate against any employee or applicant for employment because of race, creed, sex, religion, color, or national origin. Operator will take affirmative action to ensure that applicants are employed and that employees are treated, during employment, without regard to their race, creed, sex, religion, color, or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.
 2. Operator will, in all solicitations or advertisements for employees placed by or on behalf of Operator, state that all qualified applicants will receive consideration for employment without regard to race, creed, sex, religion, color, or national origin.
 3. Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency Contracting Officer, advising the labor union or workers' representative of Operator's commitments under Section 202 of Executive Order 11246, of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
 4. Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
 5. Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

6. In the event of the Operator's noncompliance with the nondiscrimination clause of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
7. Operator will include the provisions of paragraph 1 (1) through 1(7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency. Operator may request the United States to enter into such litigation to protect the interests of the United States.
8. Operator agrees to develop, sign and maintain a written Affirmative Action Compliance Program for each of its establishments and to file complete and accurate reports on Standard Form 100 (EEO-1), or such form as may be promulgated in its place.
9. Certification of Nonsegregated Facilities

Operator certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. Operator agrees that a breach of this certification is a violation of the Equal Opportunity clause required by Executive Order 11246 of September 24, 1965.

As used in this certification, the term "segregated facilities" includes facilities which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin, because of habit, local custom or otherwise.

Operator further agrees and understands that a breach of the assurances contained herein subjects it to the provisions of the Order of the Secretary of Labor at 41 CFR 60, dated May 28, 1968, and the provisions of the Equal Opportunity clause enumerated in applicable contracts.

Operator further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its file; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods).

NOTICE TO PROSPECTIVE SUBCONTRACTORS
OF REQUIREMENT FOR CERTIFICATIONS
OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities, as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually or annually).

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

II. It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts. To the extent required by Executive Order 11458 and Regulations thereunder:

1. Operator agrees to use its best efforts to carry out this policy in award of its subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owner by minority group members, or, in case of a publicly owned business, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.
2. Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall:
 - (a) Designate a liaison officer who will administer the Operator's minority business enterprises program.
 - (b) Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.
 - (c) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.
 - (d) Maintain records showing (1) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (2) awards to minority business enterprises on the source list, and (3) specific efforts to identify and award contracts to minority business enterprises.

- (e) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.
- (f) Cooperate with the Contracting Officer in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.
- (g) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph 2(d) above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

3. Operator further agrees to insert, in any subcontract hereunder which may exceed \$500,000 provisions which shall conform substantially to the language of this clause, including this paragraph, and to notify the Contracting Officer of the names of such subcontractors.

III. To the extent required by Executive Order 11701 and rules, regulations and orders thereunder, Operator agrees to comply with all agreements and obligations imposed on Operator by Executive Order 11701 and rules, regulations and orders issued thereunder, which agreements and obligations are incorporated herein by reference and to the extent required by Executive Order 11758 and regulations issued thereunder.

IV The agreements in this Part IV shall apply to the extent required by the Vocational Rehabilitation Act of 1973 and regulations issued thereunder.

This clause applies to all nonexempt contracts and subcontracts which exceed \$2,500 as follows:

(1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days, (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than \$500,000, and (3) Parts A, B, and C apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is \$500,000 or more.

PART A

- (a) Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. Operator agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.
- (b) Operator agrees that, if a handicapped individual files a complaint with Operator that it is not complying with the requirements of the Act, it will (1) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29, and (2) maintain on file for three years, the record regarding the complaint and the actions taken.

- (c) Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that it has not complied with the requirements of the Act, (1) it will cooperate with the Department in its investigation of the complaint, and (2) it will provide all pertinent information regarding its employment practices with respect to the handicapped.
- (d) Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CFR Ch VI, Part 741.
- (e) In the event of Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.
- (f) This clause shall be included in all subcontracts over \$2,500.

PART B

- (g) Operator agrees (1) to establish an affirmative action program, including appropriate procedures consistent with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93-112, (2) to publish the program in its employee's or personnel handbook or otherwise distribute a copy to all personnel, (3) to review its program on or before March 31 of each year and to make such changes as may be appropriate, and (4) to designate one of its principal officials to be responsible for the establishment and operation of the program.
- (h) Operator agrees to permit the examination by appropriate contracting agency officials of the Assistant Secretary for Employment Standards or his designee, of pertinent books, documents, papers and records concerning its employment and advancement of the handicapped.
- (i) Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the Contracting Officer stating Operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.
- (j) Operator will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

PART C

- (k) Operator agrees to submit a copy of its affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to it of a contract or subcontract.
- (l) Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of each year during performance of the contract, and by March 31 of the year following completion of the contract, in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

- V. Operator agrees to comply with the provisions of the affirmative action clause (AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIETNAM ERA) issued in Title 41, Chapter 60, Part 60-250 (Affirmative Action Obligations of Contractors and Subcontractors for Disabled Veterans and Veterans of the Vietnam Era), Section 60-250.4, of the Code of Federal Regulations, pursuant to the Vietnam Era Veteran's Readjustment Assistance Act of 1974, which are incorporated herein by reference.