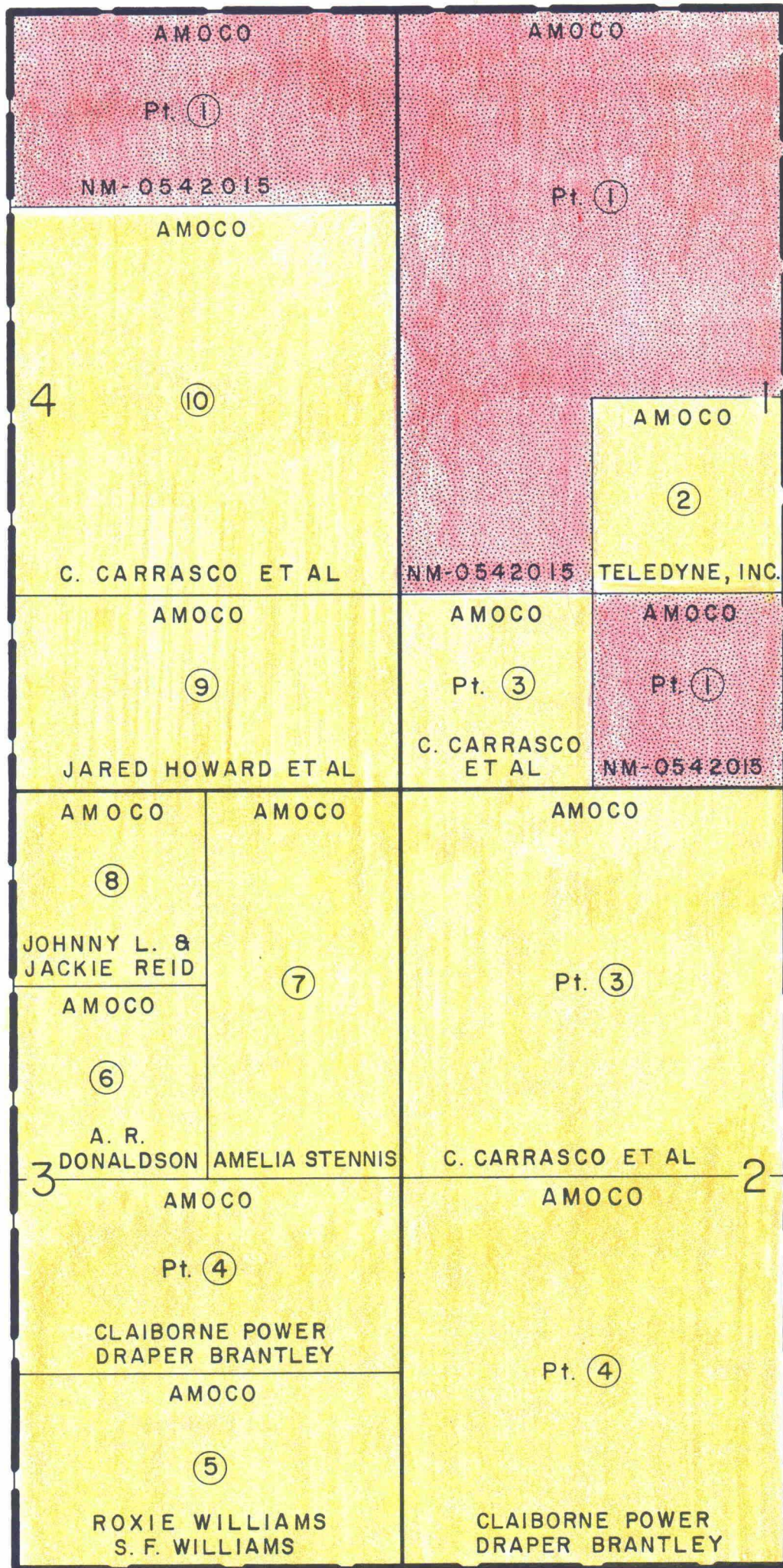


R 28 E



FEDERAL
LEASE
NM-0542015

LEGEND

 FEDERAL LAND 25%
 FEE LAND 75%

(5) TRACT NUMBER
UNIT BOUNDARY

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

Amoco EXHIBIT NO. 1

CASE NO. 6117

NOTE:

TOTAL FEDERAL ACREAGE-- 320
TOTAL FEE ACREAGE----- 960
TOTAL ACRES IN UNIT----- 1280

EXHIBIT "A"

TO ACCOMPANY

SOUTH CULEBRA BLUFF UNIT AGREEMENT

EDDY COUNTY, NEW MEXICO

SCALE: 1"=1000'

2 6117

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SOUTH CULEBRA BLUFF UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
<i>Amoco</i> EXHIBIT NO. <u>2</u>
CASE NO. <u>6117</u>

THIS AGREEMENT, entered into as of the 10th day of October, 1977,
by and between the parties subscribing, ratifying, or consenting hereto,
and herein referred to as the "parties hereto,"

WITNESSETH:

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

WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as
amended, 30 U. S. C. Secs. 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 cooperative or unit plan of development
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 an Act of the Legislature (Chapter 72, Laws of
1935, as amended by Chapter 193, Laws of 1937, Chapter 166, Laws of
1941, and Chapter 168, Laws of 1949) to approve this agreement and the
conservation provisions hereof; and,

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

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

NOW, THEREFORE, in consideration of the premises and the promises herein
contained, the parties hereto commit to this agreement their respective interests

1 in the below-defined unit area, and agree severally among themselves as 1
2 follows: 2

3 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 3
4 February 25, 1920, as amended, supra, and all valid pertinent regulations, 4
5 including operating and unit plan regulations, heretofore issued thereunder 5
6 or valid, pertinent, and reasonable regulations hereafter issued thereunder 6
7 are accepted and made a part of this agreement as to Federal lands, provided 7
8 such regulations are not inconsistent with the terms of this agreement; and 8
9 as to non-Federal lands, the oil and gas operating regulations in effect 9
10 as of the effective date hereof governing drilling and producing opera- 10
11 tions, not inconsistent with the terms hereof or the laws of the State 11
12 in which the non-Federal land is located, are hereby accepted and made 12
13 a part of this agreement. 13

14 2. UNIT AREA. The area specified on the map attached hereto 14
15 marked exhibit A is hereby designated and recognized as constituting the 15
16 unit area, containing 1280 acres, more or less. 16

17 Exhibit A shows, in additon to the boundary of the unit area, the 17
18 boundaries and identity of tracts and leases in said area to the extent known 18
19 to the Unit Operator. Exhibit B attached hereto is a schedule showing to 19
20 the extent known to the Unit Operator the acreage, percentage, and kind of 20
21 ownership of oil and gas interests in all land in the unit area. However, 21
22 nothing herein or in said schedule or map shall be construed as a representa- 22
23 tion by any party hereto as to the ownership of any interest other than such 23
24 interest or interests as are shown in said map or schedule as owned by such 24
25 party. Exhibits A and B shall be revised by the Unit Operator whenever 25
26 changes in the unit area render such revision necessary, or when requested by 26
27 the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" and not 27

1 less than five copies of the revised exhibits shall be filed with the 1
2 Supervisor and one copy with the New Mexico Oil Conservation Commission, 2
3 hereinafter referred to as the "State Commission". 3

4 The above-described unit area shall when practicable be expanded to 4
5 include therein any additional lands or shall be contracted to exclude 5
6 lands whenever such expansion or contraction is deemed to be necessary or 6
7 advisable to conform with the purposes of this agreement. Such expansion 7
8 or contraction shall be effected in the following manner: 8

9 (a) Unit Operator, on its own motion or on demand of the Director of 9
10 the Geological Survey, hereinafter referred to as "Director," after 10
11 preliminary concurrence by the Director, shall prepare a notice of proposed 11
12 expansion or contraction describing the contemplated changes in the boundaries 12
13 of the unit area, the reasons therefor, and the proposed effective date 13
14 thereof, preferably the first day of a month subsequent to the date of notice. 14

15 (b) Said notice shall be delivered to the Supervisor and the State 15
16 Commission, and copies thereof mailed to the last known address of each 16
17 working interest owner, lessee, and lessor whose interests are affected, 17
18 advising that 30 days will be allowed for submission to the Unit Operator of 18
19 any objections. 19

20 (c) Upon expiration of the 30-day period provided in the preceding 20
21 item (b) hereof, Unit Operator shall file with the Supervisor and the State 21
22 Commission, evidence of mailing of the notice of expansion or contraction and 22
23 a copy of any objections thereto which have been filed with the Unit Operator, 23
24 together with an application in sufficient number, for approval of such 24
25 expansion or contraction and with appropriate joinders. 25

26 (d) After due consideration of all pertinent information, the expansion 26
27 or contraction shall, upon approval by the Supervisor, become effective as of 27
28 the date prescribed in the notice thereof. 28

29 (e) All legal subdivisions of lands (i.e., 40 acres by Government 29
30 Survey or its nearest lot or tract equivalent; in instances of 30
31 irregular surveys unusually large lots or tracts shall be considered in 31
32 multiples of 40 acres or the nearest aliquot equivalent thereof), no parts 32
33 of which are entitled to be in a participating area on or before the fifth 33
34 anniversary of the effective date of the first initial participating area 34

1 established under this unit agreement, shall be eliminated automatically 1
 2 from this agreement, effective as of said fifth anniversary, and such 2
 3 lands shall no longer be a part of the unit area and shall no longer 3
 4 be subject to this agreement, unless diligent drilling operations are 4
 5 in progress on unitized lands not entitled to participation on said 5
 6 fifth anniversary, in which event all such lands shall remain subject 6
 7 hereto for so long as such drilling operations are continued diligently, 7
 8 with not more than 90 days' time elapsing between the completion of 8
 9 one such well and the commencement of the next such well. All legal 9
 10 subdivisions of lands not entitled to be in a participating area 10
 11 within 10 years after the effective date of the first initial partici- 11
 12 pating area approved under this agreement shall be automatically 12
 13 eliminated from this agreement as of said tenth anniversary. All 13
 14 lands proved productive by diligent drilling operations after the 14
 15 aforesaid 5-year period shall become participating in the same 15
 16 manner as during said 5-year period. However, when such diligent 16
 17 drilling operations cease, all nonparticipating lands shall be auto- 17
 18 matically eliminated effective as of the 91st day thereafter. The 18
 19 unit operator shall within 90 days after the effective date of any 19
 20 elimination hereunder, describe the area so eliminated to the satis- 20
 21 faction of the Supervisor and promptly notify all parties in interest. 21
 22 If conditions warrant extension of the 10-year period specified 22
 23 in this subsection 2(e), a single extension of not to exceed 2 years 23
 24 may be accomplished by consent of the owners of 90% of the working 24
 25 interests in the current nonparticipating unitized lands and the 25
 26 owners of 60% of the basic royalty interests (exclusive of the basic 26
 27 royalty interests of the United States) in nonparticipating unitized 27
 28 lands with approval of the Director, provided such extension appli- 28
 29 cation is submitted to the Director not later than 60 days prior to the 29
 30 expiration of said 10-year period. 30

1 Any expansion of the unit area pursuant to this section which embraces 1
2 lands theretofore eliminated pursuant to this subsection 2(e) shall not be 2
3 considered automatic commitment or recommitment of such lands. 3

4 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this 4
5 agreement shall constitute land referred to herein as "unitized land" or "land 5
6 subject to this agreement." All oil and gas in any and all formations of the 6
7 unitized land are unitized under the terms of this agreement and herein are 7
8 called "unitized substances." 8

9 4. UNIT OPERATOR. Delta Drilling Company is hereby designated 9
10 as Unit Operator and by signature hereto as Unit Operator agrees and consents 10
11 to accept the duties and obligations of Unit Operator for the discovery, 11
12 development, and production of unitized substances as herein provided. 12
13 Whenever reference is made herein to the Unit Operator, such reference 13
14 means the Unit Operator acting in that capacity and not as an owner of 14
15 interest in unitized substances, and the term "working interest owner" 15
16 when used herein shall include or refer to Unit Operator as the owner of 16
17 a working interest when such an interest is owned by it. 17

18 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall 18
19 have the right to resign at any time prior to the establishment of a parti- 19
20 cipating area or areas hereunder, but such resignation shall not become 20
21 effective so as to release Unit Operator from the duties and obligations of 21
22 Unit Operator and terminate Unit Operator's rights as such for a period of 22
23 6 months after notice of intention to resign has been served by Unit Operator 23
24 on all working interest owners and the Supervisor, and until all wells then 24
25 drilled hereunder are placed in a satisfactory condition for suspension or 25
26 abandonment whichever is required by the Supervisor, or the State Commission, 26
27 unless a new Unit Operator shall have been selected and approved and shall 27
28 have taken over and assumed the duties and obligations of Unit Operator prior 28
29 to the expiration of said period. 29

30 Unit Operator shall have the right to resign in like manner and subject 30
31 to like limitations as above provided at any time a participating area 31
32 established hereunder is in existence, but, in all instances of resignation or 32
33 removal, until a successor unit operator is selected and approved as hereinafter 33

1 provided, the working interest owners shall be jointly responsible for 1
2 performance of the duties of unit operator, and shall not later than 30 days 2
3 before such resignation or removal becomes effective appoint a common agent 3
4 to represent them in any action to be taken hereunder. 4

5 The resignation of Unit Operator shall not release Unit Operator from 5
6 any liability for any default by it hereunder occurring prior to the effec- 6
7 tive date of its resignation. 7

8 The Unit Operator may, upon default or failure in the performance of 8
9 its duties or obligations hereunder, be subject to removal by the same per- 9
10 centage vote of the owners of working interests as herein provided for 10
11 the selection of a new Unit Operator. Such removal shall be effective 11
12 upon notice thereof to the Supervisor. 12

13 The resignation or removal of Unit Operator under this agreement 13
14 shall not terminate its right, title, or interest as the owner of a 14
15 working interest or other interest in unitized substances, but upon the 15
16 resignation or removal of Unit Operator becoming effective, such Unit 16
17 Operator shall deliver possession of all wells, equipment, materials, and 17
18 appurtenances used in conducting the unit operations to the new duly 18
19 qualified successor Unit Operator or to the common agent, if no such 19
20 new Unit Operator is elected, to be used for the purpose of conducting 20
21 unit operations hereunder. Nothing herein shall be construed as author- 21
22 izing removal of any material, equipment and appurtenances needed for the 22
23 preservation of any wells. 23

24 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his 24
25 or its resignation as Unit Operator or shall be removed as hereinabove 25
26 provided, or a change of Unit Operator is negotiated by working interest 26
27 owners, the owners of the working interests in the participating area or 27
28 areas according to their respective acreage interests in such participating 28
29 area or areas, or, until a participating area shall have been established, the 29
30 owners of the working interests according to their respective acreage 30
31 interests in all unitized land, shall by majority vote select a successor Unit 31
32 Operator: Provided, That, if a majority but less than 75 per cent of the 32
33 working interests qualified to vote are owned by one party to this agreement, 33
34 a concurring vote of one or more additional working interest owners shall be 34

1 required to select a new operator. Such selection shall not become effective 1
2 until 2
3 (a) a Unit Operator so selected shall accept in writing the duties and 3
4 responsibilities of Unit Operator, and 4
5 (b) the selection shall have been approved by the upervisor. 5
6 If no successor Unit Operator is selected and qualified as herein 6
7 provided, the Director at his election may declare this unit agreement 7
8 terminated. 8
9 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 9
10 Operator is not the sole owner of working interests, costs and expenses 10
11 incurred by Unit Operator in conducting unit operations hereunder shall be 11
12 paid and apportioned among and borne by the owners of working interests, all 12
13 in accordance with the agreement or agreements entered into by and between 13
14 the Unit Operator and the owners of working interests, whether one or more, 14
15 separately or collectively. Any agreement or agreements entered into between 15
16 the working interest owners and the Unit Operator as provided in this section, 16
17 whether one or more, are herein referred to as the "unit operating agreement." 17
18 Such unit operating agreement shall also provide the manner in which the 18
19 working interest owners shall be entitled to receive their respective pro- 19
20 portionate and allocated share of the benefits accruing hereto in conformity 20
21 with their underlying operating agreements, leases, or other independent 21
22 contracts, and such other rights and obligations as between Unit Operator and 22
23 the working interest owners as may be agreed upon by Unit Operator and the 23
24 working interest owners; however, no such unit operating agreement shall be 24
25 deemed either to modify any of the terms and conditions of this unit agreement 25
26 or to relieve the Unit Operator of any right or obligation established under 26
27 this unit agreement, and in case of any inconsistency or conflict between this 27
28 unit agreement and the unit operating agreement, this unit agreement shall 28
29 govern. Three true copies of any unit operating agreement executed pursuant 29
30 to this section should be filed with the Supervisor, and one true copy with the 30
31 State Commission prior to approval of this unit agreement. 31
32 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise 32
33 specifically provided herein, the exclusive right, privilege, and duty of 33

1 exercising any and all rights of the parties hereto which are necessary or 1
2 convenient for prospecting for, producing, storing, allocating, and dis- 2
3 tributing the unitized substances are hereby delegated to and shall be 3
4 exercised by the Unit Operator as herein provided. Acceptable evidence of 4
5 title to said rights shall be deposited with said Unit Operator and, 5
6 together with this agreement, shall constitute and define the rights, 6
7 privileges, and obligations of Unit Operator. Nothing herein, however, 7
8 shall be construed to transfer title to any land or to any lease or 8
9 operating agreement, it being understood that under this agreement the 9
10 Unit Operator, in its capacity as Unit Operator, shall exercise the rights 10
11 of possession and use vested in the parties hereto only for the purposes 11
12 herein specified. 12

13 9. DRILLING TO DISCOVERY. Within 6 months after the effective date 13
14 hereof, the Unit Operator shall begin to drill an adequate test well at a 14
15 location approved by the Supervisor, unless on such effective date a well 15
16 is being drilled conformably with the terms hereof, and thereafter continue 16
17 such drilling diligently until the Morrow formation has been tested or 17
18 until at a lesser depth unitized substances shall be discovered which can 18
19 be produced in paying quantities (to wit: quantities sufficient to repay 19
20 the costs of drilling, completing, and producing operations, with a reason- 20
21 able profit) or the Unit Operator shall at any time establish to the satis- 21
22 faction of the Supervisor that further drilling of said well would be unwar- 22
23 ranted or impracticable, provided, however, that Unit Operator shall not in 23
24 any event be required to drill said well to a depth in excess of 13,300 feet. 24
25 Until the discovery of a deposit of unitized substances capable of being 25
26 produced in paying quantities, the Unit Operator shall continue drilling one 26
27 well at a time, allowing not more than 6 months between the completion of 27
28 one well and the beginning of the next well, until a well capable of produc- 28
29 ing unitized substances in paying quantities is completed to the satisfaction 29
30 of said Supervisor or until it is reasonably proved that the unitized land is 30
31 incapable of producing unitized substances in paying quantities in the forma- 31
32 tions drilled hereunder. Nothing in this section shall be deemed to limit 32
33 the right of the Unit Operator to resign as provided in Section 5, hereof, 33

1 or as requiring Unit Operator to commence or continue any drilling during the 1
2 period pending such resignation becoming effective in order to comply with the 2
3 requirements of this section. The Supervisor may modify the drilling 3
4 requirements of this section by granting reasonable extensions of time when, 4
5 in his opinion, such action is warranted. 5

6 Upon failure to commence any well provided for in this section within 6
7 the time allowed, including any extension of time granted by the Supervisor, 7
8 this agreement will automatically terminate; upon failure to continue drilling 8
9 diligently any well commenced hereunder, the Supervisor may, after 15-days 9
10 notice to the Unit Operator, declare this unit agreement terminated. 10

11 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after 11
12 completion of a well capable of producing unitized substances in paying 12
13 quantities, the Unit Operator shall submit for the approval of the Supervisor 13
14 an acceptable plan of development and operation for the unitized land which, 14
15 when approved by the Supervisor, shall constitute the further drilling and 15
16 operating obligations of the Unit Operator under this agreement for the 16
17 period specified therein. Thereafter, from time to time before the expiration 17
18 of any existing plan, the Unit Operator shall submit for the approval of the 18
19 Supervisor a plan for an additional specified period for the development and 19
20 operation of the unitized land. 20

21 Any plan submitted pursuant to this section shall provide for the 21
22 exploration of the unitized area and for the diligent drilling necessary for 22
23 determination of the area or areas thereof capable of producing unitized 23
24 substances in paying quantities in each and every productive formation and 24
25 shall be as complete and adequate as the Supervisor may determine to be 25
26 necessary for timely development and proper conservation of the oil and 26
27 gas resources of the unitized area and shall: 27

28 (a) specify the number and locations of any wells to be drilled 28
29 and the proposed order and time for such drilling; and 29

30 (b) to the extent practicable specify the operating practices 30
31 regarded as necessary and advisable for proper conservation of 31
32 natural resources. 32

33 Separate plans may be submitted for separate productive zones, subject to 33
34 the approval of the Supervisor. 34

1 Plans shall be modified or supplemented when necessary to meet changed 1
2 conditions, or to protect the interests of all parties to this agreement. 2
3 Reasonable diligence shall be exercised in complying with the obligations 3
4 of the approved plan of development. The Supervisor is authorized to grant 4
5 a reasonable extension of the 6-month period herein prescribed for submission 5
6 of an initial plan of development where such action is justified because of 6
7 unusual conditions or circumstances. After completion hereunder of a well 7
8 capable of producing any unitized substance in paying quantities, no further 8
9 wells, except such as may be necessary to afford protection against operations 9
10 not under this agreement and such as may be specifically approved by the 10
11 Supervisor, shall be drilled except in accordance with a plan of development 11
12 approved as herein provided. 12

13 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable 13
14 of producing unitized substances in paying quantities or as soon thereafter as 14
15 required by the Supervisor, the Unit Operator shall submit for approval by 15
16 the Supervisor a schedule, based on subdivisions of the public-land survey or 16
17 aliquot parts thereof, of all land then regarded as reasonably proved to be 17
18 productive in paying quantities; all lands in said schedule on approval of 18
19 the Supervisor to constitute a participating area, effective as of the date of 19
20 completion of such well or the effective date of this unit agreement, which- 20
21 ever is later. The acreages of both Federal and non-Federal lands shall be 21
22 based upon appropriate computations from the courses and distances shown on 22
23 the last approved public-land survey as of the effective date of each initial 23
24 participating area. Said schedule shall also set forth the percentage of 24
25 unitized substances to be allocated as herein provided to each tract in the 25
26 participating area so established, and shall govern the allocation of pro- 26
27 duction commencing with the effective date of the participating area. A 27
28 separate participating area shall be established for each separate pool or 28
29 deposit of unitized substances or for any group thereof which is produced as 29
30 a single pool or zone, and any two or more participating areas so estab- 30
31 lished may be combined into one, on approval of the Supervisor. When 31
32 production from two or more participating areas, so established, is 32
33 subsequently found to be from a common pool or deposit said participating 33
34 areas shall be combined into one effective as of such appropriate date as 34
35 may be approved or prescribed by the Supervisor. The participating area 35
36 or areas so established shall be revised from time to time, subject 36
37 to like approval, to include additional land then regarded as 37

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

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

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

Whenever it is determined, subject to the approval of the Supervisor, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from

such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or

1 to test any formation for which a participating area has been established if 1
2 such location is not within said participating area, unless within 90 days of 2
3 receipt of notice from said party of his intention to drill the well the Unit 3
4 Operator elects and commences to drill such a well in like manner as other 4
5 wells are drilled by the Unit Operator under this agreement. 5

6 If any well drilled as aforesaid by a working interest owner results in 6
7 production such that the land upon which it is situated may properly be 7
8 included in a participating area, such participating area shall be established 8
9 or enlarged as provided in this agreement and the well shall thereafter be 9
10 operated by the Unit Operator in accordance with the terms of this agreement 10
11 and the unit operating agreement. 11

12 If any well drilled as aforesaid by a working interest owner obtains 12
13 production in quantities insufficient to justify the inclusion of the land 13
14 upon which such well is situated in a participating area, such well may be 14
15 operated and produced by the party drilling the same subject to the conserva- 15
16 tion requirements of this agreement. The royalties in amount or value of 16
17 production from any such well shall be paid as specified in the underlying 17
18 lease and agreements affected. 18

19 **14. ROYALTY SETTLEMENT.** The United States and any State and any royalty 19
20 **owner who, is entitled to take in kind a share of the substances now unitized** 20
21 **hereunder shall hereafter be entitled to the right to take in kind its** 21
22 **share of the unitized substances, and Unit Operator, or the working interest** 22
23 **owner in case of the operation of a well by a working interest owner as herein** 23
24 **provided for in special cases, shall make deliveries of such royalty share** 24
25 **taken in kind in conformity with the applicable contracts, laws, and regula-** 25
26 **tions. Settlement for royalty interest not taken in kind shall be made by** 26
27 **working interest owners responsible therefor under existing contracts, laws** 27
28 **and regulations, or by the Unit Operator on or before the last day of each** 28
29 **month for unitized substances produced during the preceding calendar month;** 29
30 **provided, however, that nothing herein contained shall operate to relieve** 30
31 **the lessees of any land from their respective lease obligations for the** 31
32 **payment of any royalties due under their leases.** 32

1 **If gas obtained from lands not subject to this agreement is introduced** 1
 2 into any participating area hereunder, for use in repressuring, stimulation of 2
 3 production, or increasing ultimate recovery, in conformity with a plan of 3
 4 operations approved by the Supervisor, a like amount of gas, after settlement 4
 5 as herein provided for any gas transferred from any other participating area 5
 6 **and with appropriate deduction for loss from any cause, may be withdrawn** 6
 7 from the formation into which the gas is introduced, royalty free as to dry 7
 8 gas, but not as to any products which may be extracted therefrom; provided 8
 9 that such withdrawal shall be at such time as may be provided in the approved 9
 10 plan of operations or as may otherwise be consented to by the Supervisor as 10
 11 conforming to good petroleum engineering practice; and provided further, that 11
 12 such right of withdrawal shall terminate on the termination of this unit 12
 13 agreement. 13

14 Royalty due the United States shall be computed as provided in the 14
 15 operating regulations and paid in value or delivered in kind as to all 15
 16 unitized substances on the basis of the amounts thereof allocated to unitized 16
 17 Federal land as provided herein at the rates specified in the respective 17
 18 Federal leases, or at such lower rate or rates as may be authorized by law or 18
 19 regulation; provided, that for leases on which the royalty rate depends on the 19
 20 daily average production per well, said average production shall be determined 20
 21 in accordance with the operating regulations as though each participating area 21
 22 were a single consolidated lease. 22

23 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 23
 24 committed hereto shall be paid by working interest owners responsible therefor 24
 25 under existing contracts, laws, and regulations, provided that nothing herein 25
 26 contained shall operate to relieve the lessees of any land from their 26
 27 respective lease obligations for the payment of any rental or minimum royalty 27
 28 due under their leases. Rental or minimum royalty for lands of the 28
 29 United States subject to this agreement shall be paid at the rate specified 29
 30 in the respective leases from the United States unless such rental or 30
 31 minimum royalty is waived, suspended, or reduced by law or by approval of 31
 32 the Secretary or his duly authorized representative. 32

1 With respect to any lease on non-Federal land containing provisions which 1
2 would terminate such lease unless drilling operations are commenced upon the 2
3 land covered thereby within the time therein specified or rentals are paid 3
4 for the privilege of deferring such drilling operations, the rentals required 4
5 thereby shall, notwithstanding any other provision of this agreement, be 5
6 deemed to accrue and become payable during the term thereof as extended by 6
7 this agreement and until the required drilling operations are commenced upon 7
8 the land covered thereby or until some portion of such land is included within 8
9 a participating area. 9

10 16. CONSERVATION. Operations hereunder and production of unitized 10
11 substances shall be conducted to provide for the most economical and efficient 11
12 recovery of said substances without waste, as defined by or pursuant to State 12
13 or Federal law or regulation. 13

14 17. DRAINAGE. The Unit Operator shall take such measures as the Super- 14
15 visor deems appropriate and adequate to prevent drainage of unitized substances 15
16 from unitized land by wells on land not subject to this agreement. 16

17 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, 17
18 and provisions of all leases, subleases, and other contracts relating to 18
19 exploration, drilling, development, or operation for oil or gas on lands 19
20 committed to this agreement are hereby expressly modified and amended to the 20
21 extent necessary to make the same conform to the provisions hereof, but other- 21
22 wise to remain in full force and effect; and the parties hereto hereby consent 22
23 that the Secretary shall and by his approval hereof, or by the approval hereof 23
24 by his duly authorized representative, does hereby establish, alter, change, 24
25 or revoke the drilling, producing, rental, minimum royalty, and royalty 25
26 requirements of Federal leases committed hereto and the regulations in respect 26
27 thereto to conform said requirements to the provisions of this agreement, and, 27
28 without limiting the generality of the foregoing, all leases, subleases, and 28
29 contracts are particularly modified in accordance with the following: 29

30 (a) The development and operation of lands subject to this agreement 30
31 under the terms hereof shall be deemed full performance of all obligations 31

1 for development and operation with respect to each and every 1
2 separately owned tract subject to this agreement, regardless of 2
3 whether there is any development of any particular tract of the 3
4 unit area. 4
5 (b) Drilling and producing operations performed hereunder upon 5
6 any tract of unitized lands will be accepted and deemed to be 6
7 performed upon and for the benefit of each and every tract of 7
8 unitized land, and no lease shall be deemed to expire by reason of 8
9 failure to drill or produce wells situated on the land therein 9
10 embraced. 10
11 (c) Suspension of drilling or producing operations on all unitized 11
12 lands pursuant to direction or consent of the Secretary or his duly 12
13 authorized representative shall be deemed to constitute such suspension 13
14 pursuant to such direction or consent as to each and every tract of 14
15 unitized land. A suspension of drilling or producing operations limited to 15
16 specified lands shall be applicable only to such lands. 16
17 (d) Each lease, sublease or contract relating to the exploration, 17
18 drilling, development or operation for oil or gas of lands other than 18
19 those of the United States committed to this agreement, which, by its 19
20 terms might expire prior to the termination of this agreement, is hereby 20
21 extended beyond any such terms so provided therein so that it shall be 21
22 continued in full force and effect for and during the term of this 22
23 agreement. 23
24 (e) Any Federal lease for a fixed term of twenty (20) years or any 24
25 renewal thereof or any part of such lease which is made subject to this 25
26 agreement shall continue in force beyond the term provided therein until 26
27 the termination hereof. Any other Federal lease committed hereto shall 27
28 continue in force beyond the term so provided therein or by law as to 28
29 the land committed so long as such lease remains subject hereto, 29
30 provided that production is had in paying quantities under this unit 30
31 agreement prior to the expiration date of the term of such lease, or in 31
32 the event actual drilling operations are commenced on unitized land, in 32
33 accordance with the provisions of this agreement, prior to the end of 33
34 the primary term of such lease and are being diligently prosecuted at 34
35 that time, such lease shall be extended for two years and so long 35

thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, 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 the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any [Federal] lease heretofore or hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and

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

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

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

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

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

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is

hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification.

Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

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 15 days from notice.

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

23. NOTICES. All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if **given in writing and personally delivered to the party or sent by postpaid registered or certified 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 may have furnished in writing to party sending the notice, demand or statement.

1 24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained 1
2 shall be construed as a waiver by any party hereto of the right to assert any 2
3 legal or constitutional right or defense as to the validity or invalidity of 3
4 any law of the State wherein said unitized lands are located, or of the 4
5 United States, or regulations issued thereunder in any way affecting such 5
6 party, or as a waiver by any such party of any right beyond his or its 6
7 authority to waive. 7

8 25. UNAVOIDABLE DELAY. All obligations under this agreement requiring 8
9 the Unit Operator to commence or continue drilling or to operate on or produce 9
10 unitized substances from any of the lands covered by this agreement shall be 10
11 suspended while the Unit Operator, despite the exercise of due care and 11
12 diligence, is prevented from complying with such obligations in whole or in 12
13 part, by strikes, acts of God, Federal, State, or municipal law or agencies, 13
14 unavoidable accidents, uncontrollable delays in transportation, inability 14
15 to obtain necessary materials in open market, or other matters beyond the 15
16 reasonable control of the Unit Operator whether similar to matters herein 16
17 enumerated or not. No unit obligation which is suspended under this 17
18 section shall become due less than thirty (30) days after it has been 18
19 determined that the suspension is no longer applicable. Determination of 19
20 creditable "Unavoidable Delay" time shall be made by the unit operator subject 20
21 to approval of the Supervisor. 21

22 26. NONDISCRIMINATION. In connection with the performance of work under 22
23 this agreement, the operator agrees to comply with all the provisions of 23
24 section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), 24
25 which are hereby incorporated by reference in this agreement. 25

26 27. LOSS OF TITLE. In the event title to any tract of unitized land 26
27 shall fail and the true owner cannot be induced to join in this unit agreement, 27
28 such tract shall be automatically regarded as not committed hereto and there 28
29 shall be such readjustment of future costs and benefits as may be required on 29
30 account of the loss of such title. In the event of a dispute as to title as 30
31 to any royalty, working interest, or other interests subject thereto, pay- 31
32 ment or delivery on account thereof may be withheld without liability for 32
33 interest until the dispute is finally settled; provided, that, as to Federal 33
34 land or leases, no payments of funds due the United States should be withheld, 34
35 but such funds shall be deposited as directed by the Supervisor to be held 35
36 as unearned money pending final settlement of the title dispute, and then 36
37 applied as earned or returned in accordance with such final settlement. 37

1 Unit Operator as such is relieved from any responsibility for any 1
2 defect or failure of any title hereunder. 2

3 28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub- 3
4 stantial interest in a tract within the unit area fails or refuses to sub- 4
5 scribe or consent to this agreement, the owner of the working interest in that 5
6 tract may withdraw said tract from this agreement by written notice delivered 6
7 to the Supervisor and the Unit Operator prior to the approval of this agree- 7
8 ment by the Supervisor. Any oil or gas interests in lands within the unit area 8
9 not committed hereto prior to submission of this agreement for final approval 9
10 may thereafter be committed hereto by the owner or owners thereof subscribing 10
11 or consenting to this agreement, and, if the interest is a working interest, by 11
12 the owner of such interest also subscribing to the unit operating agreement. 12
13 After operations are commenced hereunder, the right of subsequent joinder, as 13
14 provided in this section, by a working interest owner is subject to such 14
15 requirements or approvals, if any, pertaining to such joinder, as may be 15
16 provided for in the unit operating agreement. After final approval hereof, 16
17 joinder by a non-working interest owner must be consented to in writing 17
18 by the working interest owner committed hereto and responsible for the 18
19 payment of any benefits that may accrue hereunder in behalf of such non- 19
20 working interest. A non-working interest may not be committed to this unit 20
21 agreement unless the corresponding working interest is committed hereto. 21
22 Joinder to the unit agreement by a working-interest owner, at any time, 22
23 must be accompanied by appropriate joinder to the unit operating agreement, 23
24 if more than one committed working-interest owner is involved, in order for 24
25 the interest to be regarded as committed to this unit agreement. Except as 25
26 may otherwise herein be provided, subsequent joinders to this agreement shall 26
27 be effective as of the first day of the month following the filing with the 27
28 Supervisor of duly executed counterparts of all or any papers necessary to 28
29 establish effective commitment of any tract to this agreement unless objection 29
30 to such joinder is duly made within 60 days by the Supervisor. 30

1	29. COUNTERPARTS. This agreement may be executed in any number of	1
2	counterparts no one of which needs to be executed by all parties or may	2
3	be ratified or consented to by separate instrument in writing specifically	3
4	referring hereto and shall be binding upon all those parties who have	4
5	executed such a counterpart, ratification, or consent hereto with the same	5
6	force and effect as if all such parties had signed the same document and	6
7	regardless of whether or not it is executed by all other parties owning or	7
8	claiming an interest in the lands within the above-described unit area.	8
9	30. SURRENDER. Nothing in this agreement shall prohibit the exercise	9
10	by any working interest owner of the right to surrender vested in such	10
11	party by any lease, sublease, or operating agreement as to all or any part	11
12	of the lands covered thereby, provided that each party who will or might	12
13	acquire such working interest by such surrender or by forfeiture as here-	13
14	after set forth, is bound by the terms of this agreement.	14
15	If as a result of any such surrender the working interest rights as to	15
16	such lands become vested in any party other than the fee owner of the	16
17	unitized substances, said party may forfeit such rights and further benefits	17
18	from operation hereunder as to said land to the party next in the chain of	18
19	title who shall be and become the owner of such working interest.	19
20	If as the result of any such surrender or forfeiture working interest	20
21	rights become vested in the fee owner of the unitized substances, such	21
22	owner may:	22
23	(1) Accept those working interest rights subject to this agreement	23
24	and the unit operating agreement; or	24
25	(2) Lease the portion of such land as is included in a participating	25
26	area established hereunder subject to this agreement and the unit	26
27	operating agreement; or	27
28	(3) Provide for the independent operation of any part of such land	28
29	that is not then included within a participating area established	29
30	hereunder.	30

1 If the fee owner of the unitized substances does not accept the working 1
2 interest rights subject to this agreement and the unit operating agreement 2
3 or lease such lands as above provided within six (6) months after the 3
4 surrendered or forfeited working interest rights become vested in the fee 4
5 owner, the benefits and obligations of operations accruing to such lands 5
6 under this agreement and the unit operating agreement shall be shared by 6
7 the remaining owners of unitized working interests in accordance with their 7
8 respective working interest ownerships, and such owners of working interests 8
9 shall compensate the fee owner of unitized substances in such lands by 9
10 paying sums equal to the rentals, minimum royalties, and royalties applicable 10
11 to such lands under the lease in effect when the lands were unitized. 11
12 An appropriate accounting and settlement shall be made for all benefits 12
13 accruing to or payments and expenditures made or incurred on behalf of such 13
14 surrendered or forfeited working interest subsequent to the date of 14
15 surrender or forfeiture, and payment of any moneys found to be owing by 15
16 such an accounting shall be made as between the parties within thirty (30) 16
17 days. In the event no unit operating agreement is in existence and a 17
18 mutually acceptable agreement between the proper parties thereto cannot 18
19 be consummated, the Supervisor may prescribe such reasonable and equitable 19
20 agreement as he deems warranted under the circumstances. 20
21 The exercise of any right vested in a working interest owner to 21
22 reassign such working interest to the party from whom obtained shall be 22
23 subject to the same conditions as set forth in this section in regard 23
24 to the exercise of a right to surrender. 24
25 31. TAXES. The working interest owners shall render and pay for their 25
26 account and the account of the royalty owners all valid taxes on or meas- 26
27 ured by the unitized substances in and under or that may be produced, gathered 27
28 and sold from the land subject to this contract after the effective date of this 28
29 agreement, or upon the proceeds or net proceeds derived therefrom. The working 29

1 interest owners on each tract shall and may charge the proper proportion of 1
2 said taxes to the royalty owners having interests in said tract, and may 2
3 currently retain and deduct sufficient of the unitized substances or 3
4 derivative products, or net proceeds thereof from the allocated share of 4
5 each royalty owner to secure reimbursement for the taxes so paid. No such 5
6 taxes shall be charged to the United States or the State of New Mexico 6
7 or to any lessor who has a contract with his lessee which requires the 7
8 lessee to pay such taxes. 8

9 32. NO PARTNERSHIP. It is expressly agreed that the relation of 9
10 the parties hereto is that of independent contractors and nothing in 10
11 this agreement contained, expressed or implied, nor any operations con- 11
12 ducted hereunder, shall create or be deemed to have created a partner- 12
13 ship or association between the parties hereto or any of them. 13

14 33. RECLAMATION LANDS. Nothing in this agreement shall modify 14
15 the special, Federal-lease stipulations applicable to lands under the 15
16 jurisdiction of the Bureau of Reclamation. 16

17 34. PROTECTION OF POTASH DEPOSITS. No wells will be drilled 17
18 for oil or gas at a location on Federal Lands which, in the opinion of 18
19 the Supervisor, would result in undue waste of potash deposits 19
20 or constitute a hazard to or unduly interfere with mining operations 20
21 being conducted for the extraction of potash deposits. 21

22 The drilling or abandonment of any well on unitized land shall be 22
23 done in accordance with applicable oil and gas operating regulations, 23
24 including such requirements as to Federal Lands as may be prescribed by 24
25 the Supervisor, as necessary to prevent the infiltration of oil, gas or 25
26 water into formations containing potash deposits or into mines or 26
27 workings being utilized in the extraction of such deposits. 27

28 Well records and survey plats that an oil and gas lessee of Federal 28
29 Lands must file pursuant to applicable operating regulations, 29
30 (30 CFR Part 221), shall be available for inspection at the Office of 30
31 the Supervisor to any party holding a Potash Permit or Lease on the Federal 31
32 Land on which the well is situated insofar as such records are pertinent to 32
33 the mining and protection of potash deposits. 33

1

2

3

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

1

2

3

ATTEST _____

DATE: _____

UNIT OPERATOR
DELTA DRILLING COMPANY

THE STATE OF TEXAS §

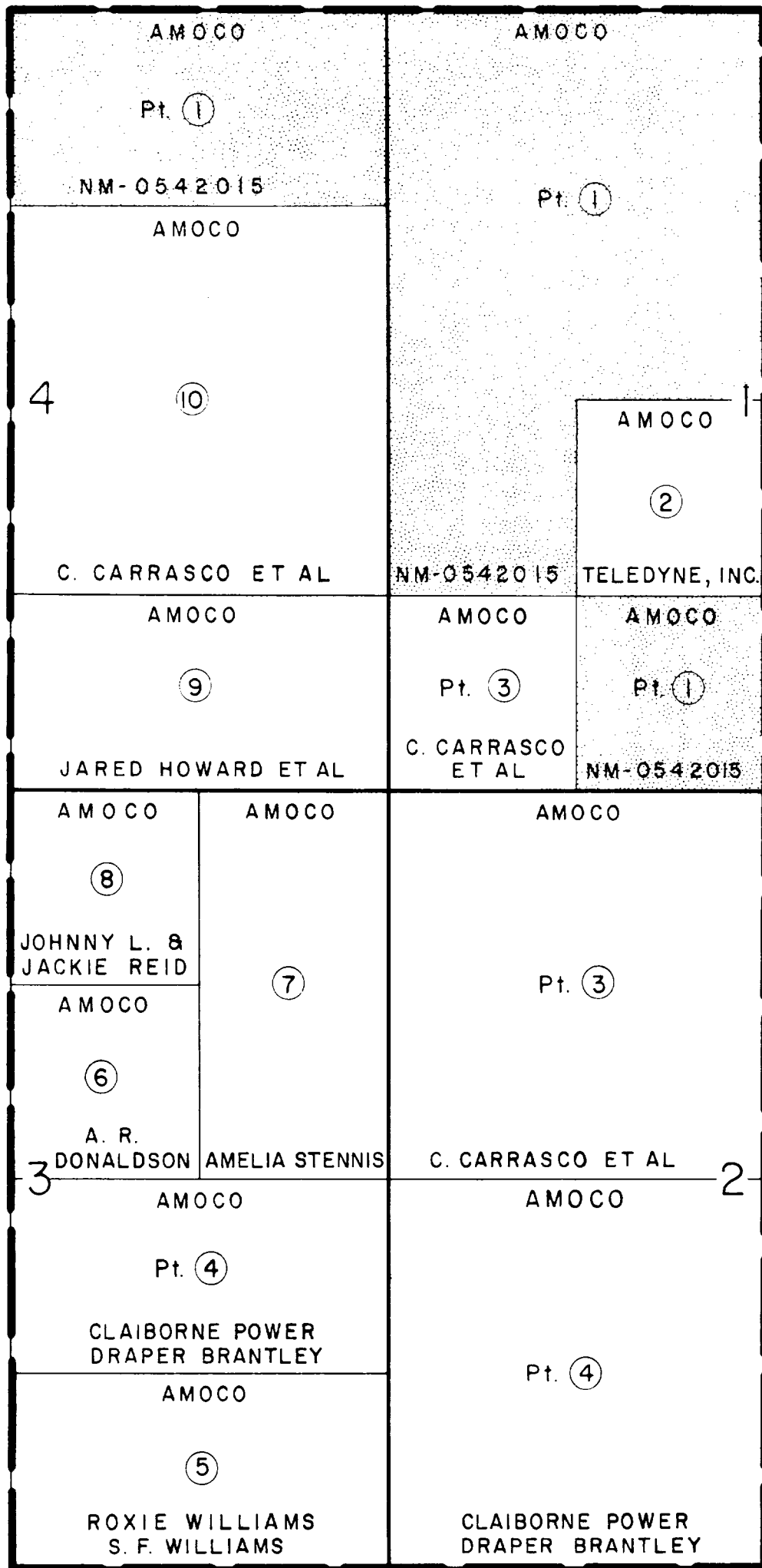
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of
_____, 19____, by _____
as Attorney-in-Fact on behalf of DELTA DRILLING COMPANY.

My Commission Expires:

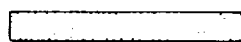
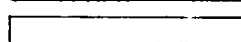


Notary Public in and for
_____ County, Texas

R 28 E



FEDERAL
LEASE
NM-0542015

LEGEND

 FEDERAL LAND
 FEE LAND
 TRACT NUMBER
 UNIT BOUNDARY

NOTE:

TOTAL FEDERAL ACREAGE-- 320
TOTAL FEE ACREAGE----- 960
TOTAL ACRES IN UNIT----- 1280

EXHIBIT "A"

TO ACCOMPANY

SOUTH CULEBRA BLUFF UNIT AGREEMENT

EDDY COUNTY, NEW MEXICO

SCALE: 1" = 1000'

EXHIBIT "B"
SOUTH CULEBRA BLUFF UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO
T 23 S, R 28 E

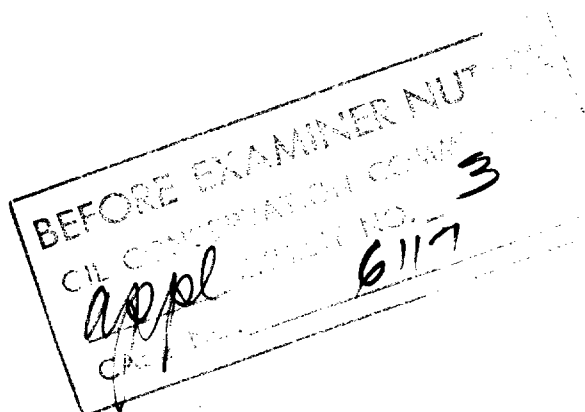
TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
FEDERAL LANDS								
T23S R28E								
1	Sec. 13: NW/4, NW/4 SW/4, SE/4 SW/4 Sec. 14: N/2 NE/4	320	NM0542015 3-18-78	USA .1250	Amoco Production	H. P. McIlsh et ux Margot - .0625 Chas. W. Hicks et ux Margie H - .0625	Amoco-A11 (522287)	143-323
FEDERAL LANDS								
FEE LANDS								
2	Sec. 13: NE/4 SW/4	40	3-14-79	Teledyne, Inc. .18750	Amoco Production	None	Amoco-A11 (536330)	114-909
3	Sec. 13: SW/4 SW/4 Sec. 24: NW/4	200	7-19-78 11-1-78 11-24-80 10-24-80	C. Carrasco .046875 Aguila Cattle Co. .046875 Saul Baker, et ux .062500 Crocker National Bank, Trustee for Albert Berger; and E11a Cohn dealing in separate property .027777	Amoco Production	None	Amoco-A11 (522076)	105-510
4	Sec. 23: N/2 SE/4, Sec. 24: E/2 SW/4, SW/4 SW/4, S/2 NW/4 SW/4, NE/4 NW/4 SW/4, NW/4 NW/4 SW/4	240	3-30-78	J. Draper Brantley, Jr. .09375 Clatborne M. Power - .09375	Amoco Production	None	Amoco-A11 (521936)	99-149 100-405

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
5	Sec. 23: S/2 SE/4	80	4-3-78	Roxie Williams - .09375 S. F. Williams - .09375	Amoco Production	None	Amoco-A11 (521919)	99-127 98-62
6	Sec. 23: SW/4 NE/4	40	3-27-78	A. R. Donaldson .18750	Amoco Production	None	Amoco-A11 (521914)	98-52
7	Sec. 23: E/2 NE/4	80	4-9-78	Amelia Stennis - .18750	Amoco Production	None	Amoco-A11 (521962)	100-441
8	Sec. 23: NW/4 NE/4	40	3-22-78	Johnny L. Reid et ux Jackie .18750	Amoco Production	None	Amoco-A11 (521899)	98-34
9	Sec. 14: S/2 SE/4	80	4-13-78	Jared Howard - .0117187 Freida Howard - .0234376 Seaborn W. Price & Estate of Beula K. Price - .046875 Betty R. Howard & Estate of Reginald G. Howard - .046875 Harvey R. Hicks - .046875 David Howard - .0117187	Amoco Production	None	Amoco-A11 (521953)	100-415 100-417 100-419 100-421 100-425

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
10	Sec. 14: S/2 NE/4, N/2 SE/4	160	7-19-78	C. Carrasco - .046875	Amoco Production	None	Amoco-A11 (522077	105-512
			11-1-78	Aguila Cattle Co. .046875				
			11-24-80	Saul Baker, et ux .062500				
			10-24-80	Crocker National Bank, Trustee for Albert Berger; and E11a Cohn dealing in separate property. .027777				
FEE LANDS		9 TRACTS	960 ACRES	75% OF UNIT				

65

A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
-Federal Lands



OPERATING AGREEMENT

DATED

October 10, 19 77,

FOR UNIT AREA IN TOWNSHIP 23-S, RANGE 28-E,

EDDY COUNTY, STATE OF NEW MEXICO.

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OPERATING AGREEMENT

THIS AGREEMENT, entered into this 10th day of October, 19 77, between
DELTA DRILLING COMPANY

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations, and title examination may be made on acreage included, or planned to be included, in any pooled unit created, or planned to be created, around such well prior to or after commencement or completion of drilling operations. At the time a well is proposed, the party or parties contributing the drillsite lease to the Unit Area (and the party or parties contributing other leases which are, or planned to be, included within any pooled unit around such well, if examination prior to commencement of drilling operations is deemed desirable by the parties) shall furnish Operator, free of charge, all abstracts, title opinions, and curative materials in its possession covering the drillsite (or other leases which may be involved, as aforesaid). Operator shall also furnish all such abstracts, title opinions, and curative materials in its possession free of charge. In the event abstracts have not been prepared, or additional abstracts are required for examination of title, such abstracts shall be procured by Operator, and the cost of same shall be charged to the joint account. Operator shall cause such title to be examined by attorneys on its staff or by outside attorneys employed for the purpose. No charge shall be made to the joint account for services of Operator's own attorneys in examination of title, but if title is examined by outside attorneys, then the fees paid to such outside attorneys shall be charged to the joint account. Operator shall attempt to procure curative materials to satisfy requirements made by the examining attorney. Costs incurred by Operator in procuring such curative materials (including brokers' per diem and expenses, costs of reproduction, etc., but expressly excluding costs of services rendered by Operator's personnel), shall also be charged to the joint account.

Copies of all title opinions and title reports, together with all curative materials secured to satisfy the examining attorney's requirements, shall be submitted by Operator to each party, and each party shall then notify Operator as promptly as possible whether it approves title.

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

Except as provided hereinabove, each party shall be responsible for, and shall bear the cost of, all title examinations which may be necessary (i. e., division order and shut-in gas royalty opinions, etc.) in connection with any interest in the Unit Area which such party has subjected to this agreement.

B. Failure of Title:

After this Operating Agreement becomes effective,
~~After all titles are approved or accepted,~~ any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

The royalty interest provided in each of the leases subject hereto, and all overriding royalties, production payments, carried working interests, net profits obligations and other burdens on production existing and of record on the date of this agreement, shall be borne and paid proportionately (to the Unit Area interest of each) by the parties hereto unless otherwise provided elsewhere in this agreement.

5. OPERATOR OF UNIT

DELTA DRILLING COMPANY shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the 1st day of November, 1977, Operator shall commence the drilling of a well for oil and gas in the following location:

SW/4 NE/4 Section 23, T-23-S, R-28-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to

13,300' or a depth sufficient to test the Morrow formation whichever is lesser.

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ^{twelve} ~~ten~~ percent ^(12%) ~~(10%)~~ per annum/until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

(1) unless the applicable usury laws should prescribe a maximum interest rate of less than twelve percent (12%), in which event the maximum interest rate prescribed by said applicable usury laws shall be that applied to the amount due.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for so long as there are operations ("operations" shall mean operations for, and any of, the following: production of oil and/or gas, drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil and/or gas) on the Unit Area, and for an additional period of 90 days from the date of cessation of all operations on the Unit Area; provided, however, that if prior to the expiration of such 90-day period, operations are begun on the Unit Area, then this agreement shall not terminate but shall continue in force as provided herein. If, at the expiration of such additional 90-day period, operations on the Unit Area have not been commenced or resumed, this agreement shall terminate. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars (\$15,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$15,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Article 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday ^{and any legal holiday}) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 300% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Article 25, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

Notwithstanding the provisions of this Article 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this article shall apply to all wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Sales by Operator of any other party's share of production shall be only for such reasonable periods of times as are commensurate with the minimum needs of the industry under the circumstances, but in no event shall such sales be for a period in excess of one (1) year.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Article 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Non-Operator shall pay all delay rentals which may become due and payable under the terms of the lease or leases comprising the Unit Area covered hereby. Operator shall make a bona fide effort to pay all shut-in gas well royalty that may become due and payable under the provisions of the lease or leases comprising the Unit Area covered hereby. The cost of any such delay rental and shut-in gas well royalty shall be charged to the joint account. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss, and there shall be no readjustment of interests in the remaining portion of Unit Area.

18. PREFERENTIAL RIGHT TO PURCHASE

Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ^{fifteen (15)} ~~ten (10)~~ days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

19. SELECTION OF NEW OPERATOR

In the event Operator should liquidate, become insolvent, die, terminate its corporate existence, or be divested of all interest in the Unit Area (by transfer of its interest or otherwise), its appointment as Operator shall terminate. If Operator should sell, transfer, or become divested of any of its interest in the Unit Area, and thereafter it does not own the largest interest in the Unit Area of any single party, the parties hereto shall have the right, after each such diminution of Operator's interest, to select a new Operator. Selection of a new Operator shall be by majority vote in interest (in the Unit Area) of the parties (including Operator). In the event Operator's appointment is terminated (by transfer of interest, resignation, or any other reason), Operator shall not be relieved of operations hereunder until ninety (90) days after the effective date of such termination, or until a new Operator shall assume operations hereunder at an earlier date. If, within thirty (30) days after the effective date of such termination, parties owning a majority interest in the Unit Area have not agreed on an Operator, then the party owning the largest (working) interest in the Unit Area shall have the right to become Operator by notifying the other parties in writing that it desires to be Operator; if said party does not desire to be Operator, then said right shall pass to the party owning the next largest interest, and so forth, in descending order of interest, until a new Operator is selected.

20. MAINTENANCE OF UNIT OWNERSHIP

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

- (1) the entire interest of the party in all leases and equipment and production; or
- (2) an equal undivided interest in all leases and equipment and production in the Unit Area.

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

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

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Article 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

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

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. In making this election, each party hereto states that income derived by it from operations under this agreement can be adequately determined without computation of partnership taxable income. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised, and should the income tax laws of such state or states require evidence of such election the Operator is authorized and directed to execute same on behalf of each party hereto. Beginning with the first taxable year of the operation, each party agrees that the deemed election provided by Section 1.761-2(b)(2)(ii) of the Federal Income Tax Regulations will apply, and no party will file an application under Section 1.761-2(b)(3)(i) of said Regulations to revoke said election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

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

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

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

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

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

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

31(1) Subsequently Created Interests Subject To Agreement:

Notwithstanding anything herein to the contrary, if, after this operating agreement becomes effective, any party shall create an overriding royalty, production payment, net profits interest, carried interest, or any other interest out of its working interest (herein called "subsequently created interest"), such subsequently created interest shall be made specifically subject to all of the terms and provisions of this agreement. If the party from whose interest such subsequently created interest is created elects under any provisions of this agreement not to participate in any operation or activity conducted under any provisions herein and as a result be required to assign its leasehold interest to, or forego its right otherwise to receive production in favor of, the remaining parties hereto who may elect to participate in any such operation or activity, such participating parties shall receive any such interest and/or production free and clear of any such subsequently created interest, and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such interest and/or production. In addition, if any party from whose working interest such subsequently created interest is created either (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to abandon a well or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in this agreement, including but not limited to Article 9 ("OPERATOR'S LIEN") of this Operating Agreement, for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

31(2) Compliance With Executive Order 11246:

Operator will comply with all applicable provisions of Executive Order 11246 of September 24, 1965, including all subsequent amendments and supplements thereto.

31(3) This agreement is subject to Gas Storage and Balancing Agreement attached hereto as Exhibit "E".

31(4) This agreement is subject to a Farm-out Contract between parties hereto dated October 10, 1977, and a Unit Agreement for the SOUTH CULEBRA BLUFF UNIT dated October 10, 1977. Any conflict between this Operating Agreement and said Unit Agreement shall be governed by the terms of the Unit Agreement which is, by reference, incorporated and made a part of this Operating Agreement.

EFFECT OF AGREEMENT:

The terms, covenants and conditions of this agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and the said terms, covenants and conditions shall be covenants running with the land and leasehold estate covered hereby, and with each transfer or assignment of said land or leasehold estate.

EXECUTED as of the day and year first above written.

ATTEST:

John P. Hall
Assistant Secretary

OPERATOR
DELTA DRILLING COMPANY

By

James L. White
Executive Vice-President

AA

NON-OPERATOR
AMOCO PRODUCTION COMPANY



By

CA Manning
Its Attorney-in-Fact

Exhibit "A"

Attached to and made a part of Operating Agreement
dated October 10, 1977, between Delta Drilling Company
as operator and Amoco Production Company as non-operator.

I. Unit Area

W/2 Section 13, E/2 Sec. 14, E/2 Sec. 23, and W/2 Section 24,
all in Township 235, Range 28E NMPM, Eddy County, New Mexico.

II. Addresses of Parties to Agreement

Delta Drilling Company
P. O. Box 2012
Tyler, TX 75710

Amoco Production Company
P. O. Box 3092
Houston, TX 77001

III. Interest of Parties

- A. In initial proration unit (E/2 Sec. 23) before payout of
test well.

	WI	ORI
Delta	100%	-0-
Amoco	-0-%	6.25 x 8/8 %

- B. In initial proration unit (E/2 Sec. 23) after payout of
test well.

	WI	ORI
Delta	50%	-0-%
Amoco	50%	-0-%

- C. In remainder of unit.

	WI
Delta	50
Amoco	50

IV. Leases Contributed by Parties

See Schedule 1 attached

SCHEDULE 1 Attached to
EXHIBIT A of OPERATING
AGREEMENT DATED October
10, 1977

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
FEDERAL LANDS								
T23S R28E								
1	Sec. 13: NW/4, NW/4 SW/4, SE/4 SW/4 Sec. 14: N/2 NE/4	320	NM0542015 3-18-78	USA .1250	Amoco Production	H. P. McIlsh et ux Margot - .0625 Chas. W. Hicks et ux Margie H - .0625	Amoco-A11 (522287)	143-323
FEDERAL LANDS								
FEE LANDS								
2	Sec. 13: NE/4 SW/4	40	3-14-79	Teledyne, Inc. .18750	Amoco Production	None	Amoco-A11 (536330)	114-909
3	Sec. 13: SW/4 SW/4 Sec. 24: NW/4	200	7-19-78	C. Carrasco .046875 Aguila Cattle Co. .046875 Saul Baker, et ux .062500 Berger Trust .031250	Amoco Production	None	Amoco-A11 (522076)	105-510
4	Sec. 23: N/2 SE/4, Sec. 24: E/2 SW/4, SW/4 SW/4, S/2 NW/4 SW/4, NE/4 NW/4 SW/4, NW/4 NW/4 SW/4	240	3-30-78	J. Draper Brantley, Jr. .09375 Claiborne M. Power - .09375	Amoco Production	None	Amoco-A11 (521936)	99-149 100-405

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
5	Sec. 23: S/2 SE/4	80	4-3-78	Roxie Williams - .09375 S. F. Williams - .09375	Amoco Production	None	Amoco-A11 (521919)	99-127 98-62
6	Sec. 23: SW/4 NE/4	40	3-27-78	A. R. Donaldson .18750	Amoco Production	None	Amoco-A11 (521914)	98-52
7	Sec. 23: E/2 NE/4	80	4-9-78	Amelia Stennis - .18750	Amoco Production	None	Amoco-A11 (521962)	100-441
8	Sec. 23: NW/4 NE/4	40	3-22-78	Johnny L. Reid et ux Jackie .18750	Amoco Production	None	Amoco-A11 (521899)	98-34
9	Sec. 14: S/2 SE/4	80	4-13-78	Jared Howard - .0117187 Freida Howard - .0234376 Seaborn W. Price & Estate of Beula K. Price - .046875 Betty R. Howard & Estate of Reginald G. Howard - .046875 Harvey R. Hicks - .046875 David Howard - .0117187	Amoco Production	None	Amoco-A11 (521953)	100-415 100-417 100-419 100-421 100-423 100-425

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND OWNERSHIP PERCENTAGE	WORKING INTEREST AND OWNERSHIP PERCENTAGE	RECORDED BOOK-PAGE
10	Sec. 14: S/2 NE/4, N/2 SE/4	160	7-19-78	C. Carrasco - .046875 Aguila Cattle Co. .046875 Saul Baker, et ux .062500 Berger Trust .031250	Amoco Production	None	Amoco-A11 (522077)	105-512
FEE LANDS 9 TRACTS 960 ACRES 75% OF UNIT								

EXHIBIT "B"

(Attached to and made a part of Operating Agreement)

UNLEASED OIL AND GAS INTERESTS

If it develops that any interest owned and contributed by a party hereto is an unleased interest in the oil and gas rights, then such unleased interest shall be treated for all purposes of this agreement as if it were a term (for the term of this Operating Agreement) oil and gas lease covering such unleased interest on a form providing for the usual and customary one-eighth royalty and containing the usual and customary "lesser interest clause". This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of production equivalent to the royalty which would be payable if such unleased interest were subject to an oil and gas lease as provided in the preceding sentence. Where any provision of this agreement shall operate to require an assignment from any party contributing an unleased mineral interest, such provision shall be construed (insofar as such unleased mineral interest is concerned) as requiring instead the execution and delivery by such party of an oil and gas lease, for a primary term of one year from the date of its delivery and so long thereafter or as oil or gas is produced, which lease shall reserve unto the Lessor a one-eighth royalty and contain the usual "lesser interest clause".

EXHIBIT " C "

Attached to and made a part of Operating Agreement between Delta
Drilling Company and Amoco Production Company.

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 \$	<u>3130</u>
Producing Well Rate \$	<u>313</u>

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000 ; plus

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

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

(Attached to and made a part of Operating Agreement entitled "Section II")

INSURANCE:

Operator shall secure and maintain during the term of this agreement, with insurance companies satisfactory to Non-Operator, insurance to cover Operator's operations on the Unit Area covered by this agreement, as follows:

Workmen's Compensation Insurance which shall fully comply with the laws of the State where operations are to be performed, and with employer's liability insurance including, if any operations hereunder are to be conducted in inland waters, bays or marshes, endorsements covering:

- (1) United States Longshoremen's and Harbor Workers' Compensation Act.
- (2) Employer's Liability covering marine operations with limits of liability of \$500,000 for death or injury to one person and \$500,000 for deaths or injuries arising out of one accident.

The Operator shall not be required to carry any other insurance for the joint account. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third persons or injury or destruction of property of third parties resulting from the operation and development of the premises covered hereby shall be borne by the parties hereto in the proportions of their respective interests in the production therefrom; and each party individually may acquire such insurance as it deems proper to protect itself against such claims. Operator shall require all third party contractors performing work in or on the premises covered hereby to carry such insurance and in such amounts as Operator shall deem necessary.

EXHIBIT "E"
(Consisting of 2 Pages)

GAS STORAGE AND BALANCING AGREEMENT

(Attached to and made a part of the Operating Agreement)

The parties to the Operating Agreement to which this agreement is attached are the owners of certain gas rights underlying the Unit Area covered by such agreement, and the ownership of each party is set forth in Exhibit "A" to said Operating Agreement.

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

During the period or periods when any party has no market for its share of gas produced from any proration or spacing unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration or spacing unit mentioned above, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to such proration or spacing unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser or purchasers all of such gas production. All the parties shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser or purchasers.

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

At any and all times while gas is being produced from the Unit Area, each party will make settlement with the respective royalty owners to whom said party is accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production exclusive of gas used in lease operations, vented or lost. Each party agrees to indemnify and hold each and every other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each indemnifying party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

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Exhibit E
(GAS STORAGE AND BALANCING AGREEMENT)

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

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

Nothing herein contained shall be construed as denying any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

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

Nothing herein contained shall change or affect the obligations of each party to bear and pay its proportionate share of all costs, expenses, and liabilities as provided in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration or spacing unit within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns. By the terms "proration unit" or "spacing unit" is meant the area or portion of the Unit Area fixed for the drilling of one well by applicable field rules, or in the absence thereof, with statewide rules and regulations of the State regulatory body having jurisdiction.