

UNIT AGREEMENT

MARLISUE QUEEN UNIT

CHAVES COUNTY, NEW MEXICO

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CHAVES COUNTY, NEW MEXICO

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EXHIBIT A (Map of Unit Area)

EXHIBIT B (Schedule of Ownership)

EXHIBIT C (Schedule of Tract Participation)

UNIT AGREEMENT

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1983, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "Parties hereto",

W I T N E S S E T H:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy & Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. New Mexico Statutes, 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Marlisue Queen Unit Area, comprised of land hereinafter described,

to give reasonably effective control of operation therein; and

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

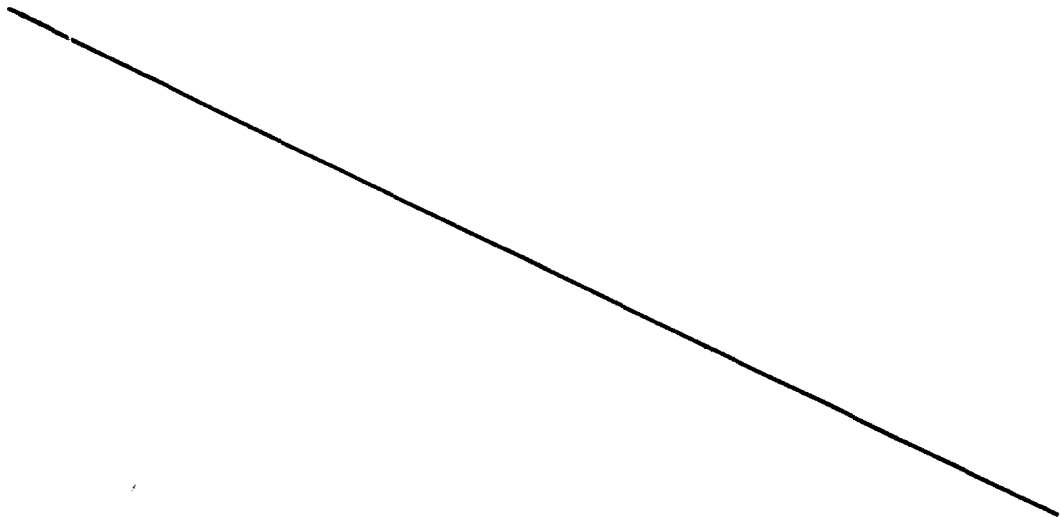
NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interests in the Unitized Formation underlying the Unit Area (as those terms are defined hereinafter), and agree severally among themselves as follows:

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

SECTION 2. UNIT AREA AND DEFINITIONS: The area described by tracts in Exhibit B and depicted on Exhibit A attached hereto is hereby designated and recognized as constituting the Unit Area, containing 440.00 acres, more or less, in Chaves County, New Mexico. Said land is described as follows:

Township 14 South, Range 29 East, New Mexico Principal Meridian

Section 24: $N\frac{1}{2}$, $NE\frac{1}{4}SW\frac{1}{4}$, $N\frac{1}{2}SE\frac{1}{4}$
containing 440 acres, more or less.



For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(b) "Division" is defined as the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico.

(c) "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area extending from the top to seventy-five feet below the top of the Queen formation, said interval top occurring at the depth of 1,894 feet as shown on the Gamma-Ray Neutron log ran on October 2, 1978, in the McClellan Oil Corporation's Marathon State No. 1 well located 1,650 feet from the south and west lines of Sec. 24, T-14 S., R. 29 E., Chaves County, New Mexico. Said log was measured from a ground elevation of 3,793 feet above sea level.

(d) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land.

(e) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title under oil and gas lease, operating agreement or otherwise held.

(f) "Working Interest Owner" is defined as an owner of a working interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, the owner of which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. A royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of such working interest shall continue to be subject to such working interest burdens and obligations

that are stated in this Agreement and the Unit Operating Agreement.

(g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest. "Basic Royalty Interest" is defined as the royalty interest reserved by the lessor of an oil and gas lease.

(h) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(i) "Lessee of Record" is defined as the holder of record title under an oil and gas lease from the State of New Mexico.

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

(k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined.

(l) "Unit Participation" of each Working Interest Owner is defined as the sum of the percentages obtained by multiplying each Working Interest Owner's fractional Working Interest in each Tract by the applicable Tract Participation of each Tract. However, for the purpose of Working Interest Owner voting rights under this Unit Agreement, Unit Participation shall mean Unit Participation during Phase II.

(m) "Phase I" is defined as that period of time beginning at 7:00 A.M. on the effective date hereof and continuing until 7:00 A.M. on the first day of the calendar month next following the recovery of a total of 15,675 barrels of oil as determined from official production reports filed with The Oil Conservation Division of the State of New Mexico produced on and after January 1, 1983, from the Unitized Formation underlying the Unit Area (as such is depicted in the original Exhibit A).

(n) "Phase II" is defined as the remainder of the term of this Agreement after the end of Phase I.

(o) "Tract Primary Reserves" is defined as the remaining primary oil reserves allocated to each tract as set out in the Stephens

Engineering letter on the Marlisue Queen Area dated February 14, 1983.

(p) "Unit Primary Reserves" is defined as the total of the Tract Primary Reserves for each tract in the Marlisue Queen Area as set out in the Stephens Engineering letter dated February 14, 1983.

(q) "Tract Ultimate Primary Reserves" is defined as the ultimate primary reserves allocated to a tract as shown in the Stephens Engineering letter on the Marlisue Queen Area dated February 14, 1983.

(r) "Unit Ultimate Primary Reserves" is defined as the total of the Tract Ultimate Primary Reserves.

(r-1) "Tract Oil Productive Reservoir Volume" is defined as the oil productive reservoir volume allocated to a tract as shown in the Stephens Engineering report on the Marlisue Queen Area dated February 14, 1983.

(r-2) "Unit Oil Productive Reservoir Volume" is defined as the total of the Tract Oil Productive Reservoir Volume.

(s) "Unit Operating Agreement" is defined as any agreement or agreements (whether one or more entered into separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, Marlisue Queen Unit, Chaves County, New Mexico".

(t) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

(u) "Unit Operations" is defined as all operations conducted pursuant to this Agreement and the Unit Operating Agreement.

(v) "Unit Equipment" is defined as all personal property, lease and well equipment, plants, and other facilities and

equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

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

SECTION 3. EXHIBITS. Exhibit A, attached hereto, is a map showing the Unit Area and, to the extent known to Unit Operator, the boundaries and identity of Tracts and leases in said Unit Area. Exhibit B, attached hereto, is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, Land description, and the percentage and kind of ownership of oil and gas interests in each Tract in the Unit Area. Exhibit C, attached hereto, is a schedule showing the Tract Participation assigned to each Tract during both Phase I and Phase II. However, nothing herein or in said schedules or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedules as owned by such party. Exhibits A, B and C shall be revised by the Unit Operator whenever changes render such revision necessary or when requested by the Commissioner, and not less than two copies thereof shall be filed with the Commissioner and the Division.

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

Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in Unitized Land and in the Tract or Tracts proposed for inclusion in the Unit Area, setting out the basis for admission, the Tract Participation (both Phase I and Phase II) proposed to be assigned to each such Tract, and other

pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if Working Interest Owners having a combined Unit Participation of ninety-four percent (94%) or more have agreed to the inclusion such Tract or Tracts under this Agreement, then Unit Operator shall:

(a) After preliminary concurrence by the Commissioner and the Division prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Phase I and Phase II Tract Participations to be assigned each such additional Tract, the revised Tract Participation for all other Tracts, and the proposed effective date thereof; preferably 7:00 A.M. on the first day of a month subsequent to the date of notice; and

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

(c) File, upon the expiration of said thirty (30) day period as set out in (b) immediately above with the Commissioner and the Division of the following: (1) Evidence of mailing or delivering copies of said notice of expansion; (2) An application in sufficient number for approval of such expansion; (3) An instrument containing the appropriate joinders in compliance with the requirements of Section 14 infra; and (4) A copy of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Commissioner, become effective as of the date prescribed in the notice thereof, or on such other date as may be set by the Commissioner in the order or instrument approving such expansion. The revised Tract Participations (both Phase I and II) of those Tracts which were qualified for participation under

this Agreement prior to any such expansion shall remain in the same ratio one to the other.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land are unitized under the terms of this Agreement and herein are called "Unitized Substances". Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals that may be produced from any formation other than the Unitized Formation as above defined.

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

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Commissioner and the Division, and until all Unit wells are placed in a condition satisfactory to the Commissioner and the Division for suspension, abandonment, or

operations, whichever is required by the Commissioner or the Division, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder be subject to removal by vote of Working Interest Owners having a combined Phase II Unit Participation of eighty-five percent (85%) or more, exclusive of the Unit Participation of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

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

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

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected and approved as herein provided, the Commissioner, at his election, may declare this Agreement terminated.

In selecting a successor Unit Operator the affirmative vote of the Working Interest Owners having a combined Phase II Unit Participation of eighty percent (80%) or more shall prevail; provided, that if any one Working Interest Owner has a Unit Participation of more than twenty percent (20%), its negative vote or failure to vote shall not serve to disapprove the selection of a new Unit Operator approved by eighty-five percent (85%) or more of the voting interest of the remaining Working Interest Owners, and provided further that the Unit Operator shall not vote to succeed itself.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed

either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Two true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner and the Division prior to approval of this Unit Agreement.

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

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Division inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of substances, whether produced from the

Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commissioner and the Division with monthly injection and production reports for each Unit well. The Working Interest Owners, the Commissioner, and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this Agreement, which revisions and changes shall be subject to approval by the Commissioner and the Division. Subject to like approval the Plan of Operations may be revised as conditions may warrant.

The initial plan of operation shall be submitted for the Commissioner's and the Division's consideration concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operation.

Notwithstanding anything to the contrary, herein contained, if Unit Operator fails to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within six (6) months after the effective date of this Agreement shall terminate automatically upon the expiration of said six (6) month period.

SECTION 12. USE OF SURFACE. The parties hereto, to the extent of their rights and interest, hereby grant to Working Interest Owners the right to use as much of the surfact of the land within the Unit

Area as may reasonably be necessary for Unit Operations and for the removal of Unitized Substances from the Unit Area, provided, that nothing shall be construed as leasing or otherwise conveying to the Working Interest Owners a site for water, gas injection, processing or other plants, or a camp site. The parties hereto, to the extent they have the right to do so, hereby grant Unit Operator the right to use free of cost brine or water (or both) produced from any formation underlying the Unitized Land for injection into the Unitized Formation. The grant of this right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into such other formations. Unit Operator shall not be entitled to take water from any well, lake, pond, or irrigation ditch belonging to a Royalty Owner without negotiating with such party for the use of such water.

SECTION 13. TRACT PARTICIPATION. In Exhibit C attached hereto, there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation percentages allocated to that Tract, under both Phase I and Phase II, calculated on the basis of all Tracts within the Unit Area being qualified under this Agreement as of the effective date hereof. The Tract Participation of each Tract within the Unit Area as set forth in Exhibit C has been calculated and determined in accordance with the factors and formula set out below, and such Tract Participations shall govern the allocation of Unitized Substances produced from the Unitized Land from and after the effective date hereof, subject to any revision or revisions of the Unit Area or the Exhibits to this Agreement in accordance with the provisions hereof.

The percentage of Tract Participations set forth in Exhibit C for each Tract within the Unit Area has been calculated and determined in accordance with the following formula:

Phase I = 100% Future Primary Recovery

Phase II= 33.3% Total Reservoir Volume

33.3% Floodable Reservoir Volume

+ 33.3% Ultimate Primary Oil Recovery

In the event less than all of the Tracts within the Unit Area are qualified for participation under this Agreement as of the effective date hereof, Unit Operator shall promptly prepare a revised Exhibit C setting forth opposite each of the qualified Tracts (as determined from Section 14 hereof, Tracts Qualified for Participation), the revised Tract Participations (both Phase I and Phase II), which shall be calculated and determined by using the factors and formula set forth in this section, but applying the same only to the qualified Tracts. Unit Operator shall promptly file copies of such revised Exhibit C with the Commissioner and the Division, and upon approval of the Commissioner the revised Exhibit C shall be effective as of the effective date of this Agreement, and shall thereafter govern the allocation of all Unitized Substances subject, however, to any further revision or revisions of Exhibit C in accordance with the provisions (Sections 3, 4, 30, and 31) hereof.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be those Tracts more particularly described in Exhibit B that corner or have a common boundary (Tracts separated only by a public highway or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Basic Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (75%) of the Basic Royalty Interest therein have become parties hereto and, further, as to which: (1) All Working Interest Owners in any such Tract as qualified for participation under this Agreement, and (2)

Seventy-five percent (75%) of the combined "voting interests" of Working Interest Owners in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the acceptance of such Tract. For the purpose of this Section 14 (b) the "voting interest" of a Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts which qualify under Section 14 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts which qualify under Section 14 (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Basic Royalty Interest therein that is committed hereto and, further, as to which: (1) The Working Interest Owner who operates the Tract and all other Working Interest Owners in such Tract who have become parties hereto have joined in a request for acceptance of such Tract and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners that are parties hereto, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties hereto and which arise out of the acceptance of the Tract as qualified for participation under this Agreement, and (2) Seventy-five percent (75%) or more of the combined "voting interest" of the Working Interest Owners in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the acceptance of such Tract, and acceptance of the indemnity agreement. For the purpose of this Section 14 (c), the "voting interest" of each Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts which qualify under Sections 14 (a) and 14 (b) bears to the total Unit Participation of all

Working Interest Owners in all Tracts which qualify under Sections 14 (a) and 14 (b). Upon the acceptance of such a Tract as qualified for participation under this Agreement, the Unit Participations (both Phase I and Phase II) which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such Agreements in proportion to their respective Working Interests in the Tract.

(d) Within Sixty (60) days after the requirements for commencement of Phase II or III have been met, the Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II or III.

If, on the effective date of this Agreement, there is any Tract or Tracts which have not been qualified as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Commissioner and the Division, file a schedule of those Tracts which are entitled to participate in the production of Unitized Substances. Said schedule shall set forth opposite each such qualified Tract the assigned Tract number, the lease number, the owner of record of the lease and the Tract Participation percentage which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on Unitized Land for drilling, operating, camp, other production or development purposes and for pressure maintenance or

unavoidably lost) shall be apportioned among and allocated to the qualified Tracts within the Unit Area in accordance with the respective Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances are produced, as set forth in the schedule of participation in Exhibit C or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

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

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained except as provided in Section 39 hereof, shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the qualification of any Tract.

If the Working Interest or Royalty Interest in any Tract, on or after the effective date hereof, is divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the percentage Tract Participation (both Phase I and II) assigned to such Tract shall, in the absence of a recordable instrument

executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on Unitized Land, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto. Subject to Section 16, (Royalty Settlement), hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the Working Interest Owner receiving the same in kind excepting the State of N.M.

If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right but not the obligation, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year and at not less than the prevailing market price in the area for like production. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party 60 days' notice of such intended sale.

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

If, after the effective date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not qualified hereunder as of the effective date hereof but which are subsequently qualified for participation under the provisions of Section 14 (Tracts Qualified for Participation) and Section 31 (Nonjoinder and Subsequent Joinder), or if any Tract is excluded from this Agreement as provided for in Section 30 (Loss of Title), the schedule of participation (both Phase I and II) as shown in Exhibit C, subject to Section 13 (Tract Participation) of Section 31 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and the revised Exhibit C, upon approval by the Commissioner, shall govern all the allocation of Unitized Substances produced on and after the effective date thereof until the effective date of a new schedule so approved by the Commissioner. In any such revised Exhibit C pursuant to this paragraph, the Phase I and Phase II Tract Participations of the previously qualified Tracts shall remain in the same ratio one to the other.

SECTION 16. ROYALTY SETTLEMENT. The State of New Mexico and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to

such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalty due under their leases, except that such royalty shall be computed in accordance with the terms of this Unit Agreement.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the State of New Mexico) in a Tract depends upon the average production per well or the average pipeline run per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof.

Each Royalty Owner (other than the State of New Mexico) that ratifies this Agreement represents and warrants that he is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as his interest appears in Exhibit B attached hereto. If any such Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then such Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties in the affected Tract or Tracts shall be adjusted accordingly.

If gas obtained from lands or formation not subject to this Agreement is introduced into the Unitized Formation for use in

repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan of operation first approved by the Commissioner and the Division, a like amount of gas, less appropriate deduction for loss of depletion from any cause may be withdrawn from the Unitized Formation royalty free as to dry gas, but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time and pursuant to such conditions and formulas as may be prescribed in the approved plan of operation or as may otherwise be consented to by the Commissioner and the Division as conforming to good petroleum engineering practices and provided further, that such right of withdrawal shall terminate on the termination date of this Unit Agreement.

SECTION 17. RENTAL SETTLEMENT. Rentals and shut-in royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefore under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or shut-in royalty due under their leases. Rental or shut-in royalty for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, unless such rental or shut-in royalty is waived, suspended or reduced by law or by approval of the Commissioner.

SECTION 18. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 19. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this Agreement, or, with the consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED.

The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the foregoing:

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

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

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Supervisor and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

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

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been, discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. MATHEMATICAL ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which might exist in the pertinent exhibits to this Agreement upon approval by the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of 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 assignments or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the calendar month next following the approval of this Agreement by the Commissioner and the Division.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office of the County Clerk of Chaves County, New Mexico one counterpart of this Agreement accompanied by a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are produced from the Unitized Land and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and, should production be restored, so long thereafter as such Unitized Substances can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated at any other time and for any other reasons with the approval of the Commissioner by Working Interest Owners owning eighty-five percent (85%) or more of the Unit Participation. Notice of any such approved termination shall be filed with the County Clerk of Chaves County, New Mexico, and given to all parties hereto by the Unit Operator within thirty (30) days after the effective date of termination.

Upon termination of this Agreement, Unit Operations shall cease and the parties hereto thereafter shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

If not otherwise provided by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION.

The Commissioner 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 of production under this Agreement is not fixed pursuant to State law or does not conform to any statewide 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 Commissioner 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 State law. No such alteration or modification shall be effective as to any privately-owned lands subject to this Agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the Commissioner and the Division shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice.

SECTION 25. (intentionally omitted)

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

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

SECTION 28. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any Federal or State law, or rules and regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the term of this Agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 29. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise

of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

No Unit obligation which is suspended pursuant to this Section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "unavoidable delay" time shall be made by Unit Operator subject to the approval of the Commissioner.

SECTION 30. LOSS OF TITLE. In the event title to any Tract of Unitized Land shall fail so as to render the Tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such Tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In such event, Unit Operator shall recompute the Phase I and II Tract Participations of each of the Tracts remaining subject to this Agreement and shall revise Exhibit C accordingly. The revised Exhibit C shall be effective as of the first day of the calendar month in which such failure of title is finally determined. The Phase I and II participation percentages so recomputed for qualified Tracts shall remain the same ratio one to the other as before the loss of title was determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder

with respect to such interest. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 31. NONJOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a Tract within the Unit Area fails or refuses to subscribe or consent to this Agreement, the owner of the Working Interest in that Tract may withdraw said Tract from this Agreement by written notice to the Commissioner and the Unit Operator prior to the approval of this Agreement by the Commissioner.

Any Oil and Gas Interest in the Unitized Formation not committed hereto prior to the effective date of this Agreement may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time during a period of one (1) month after the effective date of the Unit Agreement on the same basis of participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying or consenting in writing to this Agreement, and if the interest is a Working Interest, by the owner of such interest also subscribing to the Unit Operating Agreement.

It is understood and agreed, however, that after such one month period the right of subsequent joinder by a Working Interest Owner as provided in this Section shall be subject to such requirements

or approval, as provided by the Unit Operating Agreement, if any, and on such equitable basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of eighty per cent (80%) or more with the approval of the Commissioner. To be effective such joinder must be accompanied by a joinder to the Unit Operating Agreement. After the aforementioned one-month period joinder by the owner of a Royalty Interest such joinder must be evidenced by his execution or ratification of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner and the Division of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 32. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the above described Unit Area.

SECTION 33. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party; provided, that if the party is the owner of a Working Interest he must also execute the Unit Operating Agreement.

SECTION 34. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unitized Land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, excluding the State of New Mexico, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 35. BORDER AGREEMENTS. Unit Operator, with concurrence of two (2) or more Working Interest Owners having a combined voting interest of seventy-five percent (75%) or more, may, subject to approval of the Division, enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum, ultimate recovery, conservation purposes, and proper protection of the parties and interest.

SECTION 36. PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands subject to this Agreement shall be deemed to be and shall remain personal property belonging to such parties and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 37. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create,

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

SECTION 38. OIL IN LEASE TANKAGE ON EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks on the Unitized Land in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally as a part of prior allowables of the well or wells from which produced shall be and remain the property of the Interest Owners entitled thereto the same as if this Unit had not been formed; and the Working Interest Owner responsible therefore shall promptly remove said oil from the Unitized Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner under the terms and provisions of this Agreement and shall be, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the applicable lease or leases and other contracts affected. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 39. LIEN OF UNIT OPERATOR. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

ATTEST:

Deloris Taylor
Deloris Taylor, Secretary

~~By~~

Jack L. McClellan, President

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

The foregoing instrument was acknowledged before me this 1st day of July, 1983, by Jack L. McClellan, President of McClellan Oil Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

10-30-85

Marcia Smith
Notary Public

[illegible]

EXHIBIT B
TO
UNIT AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

Tract No.	Description	No. of Acres	Lease No. & Expiration Date	Basic Royalty	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount
STATE LANDS							
1	Township 14 South, Range 29 East Section 24: NE $\frac{1}{4}$ SW $\frac{1}{4}$	40	L-4749 HBP	State of N.M.	Marathon Oil Co.	Marathon Oil Company 12.50%	McClellan Oil Corp. 3/16 The Toles Company 1/4 Robert M. Patterson 1/4 Jack L. McClellan 1/16 Abby Corporation 1/4
2	Township 14 South, Range 29 East Section 24: N $\frac{1}{4}$, N $\frac{1}{4}$ SE $\frac{1}{4}$	400	K-6772 HBP	State of N.M.	Sun Oil Company	McClellan Oil Corp. 2.344% The Toles Company 3.125% Robert M. Patterson 3.125% Jack L. McClellan .781% Abby Corporation 3.125%	McClellan Oil Corp. 3/16 The Toles Company 1/4 Robert M. Patterson 1/4 Jack L. McClellan 1/16 Abby Corporation 1/4

GRAND TOTAL 2 State Tracts - 440 acres - 100% of Unit Area

EXHIBIT C
TO
UNIT AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

Tract No.	Description of Tract	Tract Participation Percentage	
		Phase I	Phase II
1	NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 24, T-14-S, R-29-E	35.311005	36.921582
2	N $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ Section 24, T-14-S, R-29-E	64.688995	63.078418
Total		100.000000	100.000000

UNIT OPERATING AGREEMENT

MARLISUE QUEEN UNIT

CHAVES COUNTY, NEW MEXICO

BEFORE EXAMINER STAMETS OIL COMMISSION DIVISION EXHIBIT NO. <u>5</u> CASE NO. <u>7895-8002</u> Submitted by <u>M^e Clellan</u> Hearing Date _____
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UNIT OPERATING AGREEMENT

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1983, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

W I T N E S S E T H :

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement, Marlisue Queen Unit, Chaves County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

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

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

2.1.2 Exhibit D, attached hereto, is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the portion of each Working Interest Owner's participation attributable to each such interest, and the Unit Participation of each Working Interest Owner for both Phase I and Phase II. Exhibit D, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing

the Unit Participation of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

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

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

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision, unless a different revision is specified.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty Thousand Dollars (\$20,000); however, approval

by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Ten Thousand Dollars (\$10,000) or more.

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

3.2.7 Audits. The auditing of the account of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made upon the approval of the majority of Working Interest Owners other than Unit Operator, at the expense of all Working Interest Owners other than Unit Operator,
- (c) be made at the expense of those Working Interest Owners requesting such audit, if less than a majority of the Working Interest Owners, other than Unit Operator, request such an audit, and
- (d) be made upon not less than thirty (30) days' written notice to Unit Operator.

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

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

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

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

3.2.12 The enlargement of Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Phase II Unit Participation of not less than five percent (5%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

4.3.2 Vote Required. Unless provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two (2) or more Working Interest Owners having a combined voting interest of at least seventy-five percent (75%); provided, however, that if any Working Interest Owner has a voting interest of twenty-five percent (25%) or more, its negative vote or failure to vote shall not serve to disapprove any motion, unless such vote is supported by the vote of two or more

Working Interest Owners having a combined voting interest of at least five percent (5%); and such affirmative vote shall be controlling on all parties.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner.

Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote at the meeting provided such item is not amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may decide by letter or telegram any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. McClellan Oil Corporation is hereby designated as Unit Operator.

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

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Thousand Dollars (\$20,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

ARTICLE 8

TAXES

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

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

ARTICLE 9

INSURANCE

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

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

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

9.1.3 Unit Operator shall require all contractors engaged in work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Unit Operator's minimum requirements.

9.2 Other Insurance. Unit Operator shall not be required to carry any other insurance for the joint account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages or destruction resulting from Unit Operations.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation.

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, on the Effective Date or as soon thereafter as practicable, and at Unit Expense, inventory and evaluate in accordance with the provisions of Exhibit E the personal property taken over under Sections 10.1.1 and 10.1.2, except that casing shall be inventoried for record purposes, but shall be excluded from pricing and investment adjustment. Such inventory shall include and be limited to those items of equipment indicated to be controllable in the 1982 edition of the Material Classification Manual prepared by the Council of Petroleum Accountants Societies of North America (COPAS), except that sucker

rods and other items as agreed upon by Working Interest Owners may be included on the inventory in order to insure a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area, although excluded from the inventory, shall nevertheless be taken over by the Unit Operator. Immediately following the completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced in accordance with provisions of Section IV, paragraph 2 of Exhibit E, Accounting Procedure, or at an appraised value as determined by the Working Interest Owners. Pricing shall be performed under the supervision of, by the personnel of, and in the offices of, the Unit Operator, with the other Working Interest Owners furnishing such additional pricing help as may be available and necessary.

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

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

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

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit E. Each Working Interest Owner shall reimburse the Unit Operator for its share of Unit Expense as follows:

11.1.1 Operating Costs and Expenditures. All operating costs and expenses shall be shared and borne by Working Interest Owners in proportion to their then effective Unit Participation.

11.1.2 Investment Expenditures. Beginning at 7:00 a.m. on the Effective Date hereof, all capital expenditures shall be shared and borne by the Working Interest Owners in accordance with their Phase II Unit Participation.

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

11.3 Advance Billings. Unit Operator shall have the right without prejudice to other rights or remedies to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15)

days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted, and in its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of fifteen percent (15%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by the Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

11.6 Unpaid Unit Expenses. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected

thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall be subrogated to the lien and other rights herein granted Unit Operator.

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

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

ARTICLE 12

NON-UNITIZED FORMATIONS

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

12.2 Multiple Completions. On and after the effective date hereof, no well shall be multiply completed to produce from the Unitized Formation and any other formation without prior consent of the Working Interest Owners. In the event such consent is given, such multiple completion shall be subject to terms and conditions as may be prescribed by Working Interest Owners.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit D, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to such interest, except failure to title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is

finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Ten Thousand Dollars (\$10,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are

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

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail

or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

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

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area to termination of the Unit Agreement, Unit Operator shall give written notice thereof to Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after Working Interest Owners of the Tract have notified

Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective.

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

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

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

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to

the joint account, the net salvage value as determined by Working Interest Owners of the casing and equipment in and on the wells taken over, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

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

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

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

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party of this agreement by signing the original of this instrument, a counterpart hereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto, their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

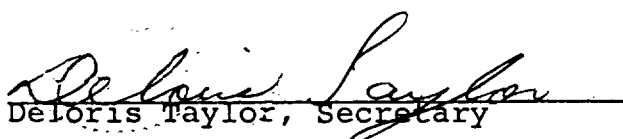
IN WITNESS WHEREOF, the parties hereto have executed this agreement on the date opposite their respective signatures.

McCLELLAN OIL CORPORATION

July 1, 1983

(Date)

ATTEST:


Deloris Taylor, Secretary

By


Jack L. McClellan, President

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

The foregoing instrument was acknowledged before me this 1st
day of July, 1983, by Jack L. McClellan, President of
McClellan Oil Corporation, a New Mexico corporation, on behalf
of said corporation.

My Commission Expires:

10-30-85

Marion Smith
Notary Public

EXHIBIT D
TO
UNIT OPERATING AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

Tract No.	Working Interest Owner	Working Interest in Tract	Unit Participation Percentage	
			Phase I	Phase II
1	McClellan Oil Corporation	0.187500	6.620814	6.922796
	The Toles Company	0.250000	8.827751	9.230396
	Robert M. Patterson	0.250000	8.827751	9.230396
	Jack L. McClellan	0.062500	2.206938	2.307598
	Abby Corporation	0.250000	8.827751	9.230396
		1.000000	35.311005	36.921582
2	McClellan Oil Corporation	0.187500	12.129186	11.827204
	The Toles Company	0.250000	16.172249	15.769604
	Robert M. Patterson	0.250000	16.172249	15.769604
	Jack L. McClellan	0.062500	4.043062	3.942402
	Abby Corporation	0.250000	16.172249	15.769604
		1.000000	64.688995	63.078418
Total				
			100.000000	100.000000

EXHIBIT D - SUMMARY
TO
UNIT OPERATING AGREEMENT
MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Unit Participation Percentage</u>	
		<u>Phase I</u>	<u>Phase II</u>
Abby Corporation	1	8.827751	9.230396
	2	<u>16.172249</u>	<u>15.769604</u>
		25.000000	25.000000
Jack L. McClellan	1	2.206938	2.307598
	2	<u>4.043062</u>	<u>3.942402</u>
		6.250000	6.250000
McClellan Oil Corporation	1	6.620814	6.922796
	2	<u>12.129186</u>	<u>11.827204</u>
		18.750000	18.750000
Robert M. Patterson	1	8.827751	9.230396
	2	<u>16.172249</u>	<u>15.769604</u>
		25.000000	25.000000
The Toles Company	1	8.827751	9.230396
	2	<u>16.172249</u>	<u>15.769604</u>
		25.000000	25.000000
Total		100.000000	100.000000

EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement,
Marlisue Queen Unit, Chaves County, New Mexico

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. XXXXXXXX
XX
XX

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$	2500.00	--
Producing Well Rate \$	200.00	

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00; plus
- B. 3 % of total costs in excess of \$ 100,000.00 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.

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

RATIFICATION BY OVERRIDING ROYALTY OWNER

For consideration paid, the undersigned does hereby ratify and confirm, and join in, the Unit Agreement for the Marlisue Queen Unit, covering the following described lands in Chaves County, New Mexico, to-wit:

Township 14 South, Range 29 East, N.M.P.M.
Section 24: N½, NE½SW¼, N½SE¼

containing 440 acres, more or less, as of the effective date of said Unit Agreement.

The undersigned does hereby acknowledge a true copy of the Unit Agreement.

MARATHON OIL COMPANY



September 26, 1983

(Date)

By:

C. L. Roberts

C. L. Roberts

Title: Onshore Operations Manager
Houston Division

(Individual)

STATE OF _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1983, by _____.

My Commission Expires:

Notary Public

(Corporate)

STATE OF TEXAS)
COUNTY OF HARRIS)

The foregoing instrument was acknowledged before me this 26th day of September, 1983, by C. L. Roberts, Onshore Operations Manager Houston Division of Marathon Oil Company, an Ohio corporation, on behalf of said corporation.

My Commission Expires:

ANN M. OLSON
Notary Public in and for Harris County, Texas
My Commission Expires December 6, 1986

Ann M. Olson
Notary Public

(if an individual, spouse, if any, must join)

RATIFICATION BY WORKING INTEREST OWNER

Township 14 South, Range 29 East, N.M.P.M.
Section 24: N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$

containing 440 acres, more or less, as of the effective date of said Unit Agreement and the Unit Operating Agreement.

The undersigned does hereby acknowledge a true copy of the Unit Agreement and the Unit Operating Agreement.

acknowledge a true copy of the
ting Agreement.

Robert M. Patterson

Robert M. Patterson

Sept 1, 1953
(Date)

Elyse S. Patterson
Elyse S. Patterson

(Individual)

STATE OF MISSOURI)
)
COUNTY OF JACKSON)

The foregoing instrument was acknowledged before me this 1st
day of SEPT, 1983, by ROBERT M. PATTERSON AND
ELYSE S. PATTERSON.

My Commission Expires:

MAY 22, 1984

Betty L. Smith
Notary Public

(Corporate)

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1983, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

(if an individual, spouse, if any, must join)

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

RATIFICATION BY WORKING INTEREST OWNER

For consideration paid, the undersigned does hereby ratify and confirm, and join in, the Unit Agreement and the Unit Operating Agreement for the Marlisue Queen Unit, covering the following described lands in Chaves County, New Mexico, to-wit:

Township 14 South, Range 29 East, N.M.P.M.
Section 24: N $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{4}$ SE $\frac{1}{4}$

containing 440 acres, more or less, as of the effective date of said Unit Agreement and the Unit Operating Agreement.

The undersigned does hereby acknowledge a true copy of the Unit Agreement and the Unit Operating Agreement.

THE TOLES COMPANY

By: 
J. Penrod Toles
General Partner

8-29-83

(Date)


(Individual)

STATE OF NEW MEXICO)
)
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 29th day of August, 1983, by J. Penrod Toles, General Partner, The Toles Company, a limited partnership, in behalf of said partnership.

My Commission Expires:

9-14-85


Notary Public

(Corporate)

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1983, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

(if an individual, spouse, if any, must join)

MARLISUE QUEEN UNIT

CHAVES COUNTY, NEW MEXICO

RATIFICATION BY WORKING INTEREST OWNER

For consideration paid, the undersigned does hereby ratify and confirm, and join in, the Unit Agreement and the Unit Operating Agreement for the Marlisue Queen Unit, covering the following described lands in Chaves County, New Mexico, to-wit:

Township 14 South, Range 29 East, N.M.P.M.
Section 24: N½, NE½SW¼, N½SE¼

containing 440 acres, more or less, as of the effective date of said Unit Agreement and the Unit Operating Agreement.

The undersigned does hereby acknowledge a true copy of the Unit Agreement and the Unit Operating Agreement.

August 31, 1983
(Date)

Jack L. McClellan
Jack L. McClellan

Barbara A. McClellan
Barbara A. McClellan

(Individual)

STATE OF New Mexico)
COUNTY OF Chaves)

The foregoing instrument was acknowledged before me this 31st day of August, 1983, by Jack L. McClellan and Barbara A. McClellan.

My Commission Expires:
10-30-85

Marcelo Smith
Notary Public

(Corporate)

STATE OF _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1983, by _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

(if an individual, spouse, if any, must join)

MARLISUE QUEEN UNIT
CHAVES COUNTY, NEW MEXICO

RATIFICATION BY WORKING INTEREST OWNER

For consideration paid, the undersigned does hereby ratify and confirm, and join in, the Unit Agreement and the Unit Operating Agreement for the Marlisue Queen Unit, covering the following described lands in Chaves County, New Mexico, to-wit:

Township 14 South, Range 29 East, N.M.P.M.
Section 24: N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$

containing 440 acres, more or less, as of the effective date of said Unit Agreement and the Unit Operating Agreement.

The undersigned does hereby acknowledge a true copy of the Unit Agreement and the Unit Operating Agreement.

ABBY CORPORATION

By: Scott A. Harris
Scott A. Harris, President

Sept. 1, 1983

(Date)

ATTEST:

Doris Ann Morrison
Doris Ann Morrison, Secretary

(Individual)

STATE OF _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1983, by _____.

My Commission Expires:

Notary Public

(Corporate)

STATE OF COLORADO)
COUNTY OF MESA)

The foregoing instrument was acknowledged before me this 1st day of Sept., 1983, by Scott A. Harris,
President of Abby Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

4/29/86

Deena M. Davis
Notary Public

(if an individual, spouse, if any, must join)