

UNIT OPERATING AGREEMENT
VACUUM GLORIETA EAST UNIT
LEA COUNTY, NEW MEXICO

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	<u>17</u>
CASE NO.	<u>10485!10486</u>

**UNIT OPERATING AGREEMENT
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**UNIT OPERATING AGREEMENT
VACUUM GLORIETA EAST UNIT
LEA COUNTY, NEW MEXICO**

THIS AGREEMENT, entered into as of the 10th day of September, 1993, by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, the parties hereto, as Working Interest Owners have executed that certain agreement entitled "Unit Agreement for the Development and Operation of the Vacuum Glorieta East Unit, Lea County, New Mexico" hereinafter referred to as "Unit Agreement," and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners to provide for Unit Operations herein 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 incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail. For the purposes of this Agreement, the following additional definitions are incorporated to supplement those definitions set forth in Section 2 of the Unit Agreement:

- (r) "Oil and Gas Rights" is defined as the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (s) "Unit Operator" is defined as the Working Interest Owner designated by the other Working Interest Owners under Section 6 of the Unit Agreement to conduct Unit Operations.
- (t) "Unit Operations" is defined as any operation conducted pursuant to the Unit Agreement and this Agreement.
- (u) "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.
- (v) "Unit Expense" is defined as all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to the Unit Agreement and this Agreement for or on account of Unit Operations.
 - (w) "Effective Date" is defined as the date determined in accordance with Section 22 of the Unit Agreement.
 - (x) "Pre-Unitization Owner" is defined as the ownership by a Working Interest Owner(s), prior to Unitization, of certain rights, interest and ownership in land, wells, equipment and facilities in the Unit Area.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits "A" and "B" of the Unit Agreement.

2.1.2 Exhibit "C", attached hereto, is a Summary of Unit Participation.

2.1.3 Exhibit "D", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.4 Exhibit "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. In the event of conflict between this Agreement and Exhibit "E", this Agreement shall prevail.

2.1.5 Exhibit "F", attached hereto, contains Certificate of Compliance provisions as provided for in Article 22.2 herein.

2.1.6 Exhibit "G", attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.

2.1.7 Exhibit "H" attached hereto, contains a listing of the demand wells and locations.

2.1.8 Exhibit "I" attached hereto is the Memorandum of Unit Operating Agreement and Notice of Lien and Mortgage-Financing Statement to be filed for record in the office of County Clerk, Lea County, New Mexico.

2.2 Revision of Exhibits. Whenever Exhibits "A" or "B" are revised, Exhibit "C" shall be revised accordingly and be effective as of the same date.

Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

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.

ARTICLE 3
SUPERVISION OF OPERATIONS BY
WORKING INTEREST OWNERS

3.1 Overall Supervision. Subject to the other terms and provisions of this Agreement and of the Unit Agreement, Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such power, 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 Particular Powers and Duties. The Working Interest Owners, using the voting procedures given in Article 4.3, unless otherwise specifically provided in this Agreement, or in the Unit Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:

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

3.2.2 Drilling of Wells. The drilling, deepening or sidetracking of any well within the Unit Area for the production of Unitized Substances; and the drilling of any well for injection, salt water disposal or for any other Unit purpose.

3.2.3 Well Workovers and Conversion of Wells. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Article 3.2.4 hereinbelow and the abandonment or conversion of the use of any well from one purpose to another or the use of any such well for injection or any other purpose other than production. The Unit Operator will notify the Working Interest Owners in a timely manner when any well is re-activated, shut-in, temporarily abandoned, or converted to other use if so

doing is reasonably estimated to require an expenditure not in excess of the expenditure limitation specified in Section 3.2.4 hereinbelow.

3.2.4 Expenditures. Making of any single expenditure in excess of fifty thousand dollars (\$50,000.00), except as provided in Article 7.9 hereof; provided that approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefore and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage and the AFE for such work shall contain the estimated cost of all necessary expenditures.

3.2.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus unit material or equipment, if the current list price of new equipment similar thereto is Twenty-five-Thousand Dollars (\$25,000) or more.

3.2.6 Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to Unit Operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Assignments to Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

3.2.8 Selection of Successor to Unit Operator. The selection of a successor to the Unit Operator.

3.2.9 Enlargement of Unit Area. The enlargement of the Unit Area.

3.2.10 Investment Adjustment. The adjustment and readjustment of Investments as provided for in Article 10 hereof.

3.2.11 Acquisition of Wells for Unit Operations. The acquisition of wells for Unit Operations.

3.2.12 Termination of Unit Agreement. The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall

advise Unit Operator in writing of the names and addresses of its representatives and alternates who are authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representatives or alternates may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached, unless notice is waived by 90% or more of the current Unit Participation. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or other items presented at such meeting. Any item proposed at a meeting that was not included on the agenda cannot be brought to a vote at said meeting, but will require a poll vote or a subsequent meeting. The representative of Unit Operator shall be Chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine 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 VI of Unit Participation except where specifically provided herein.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of three (3) or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote. Any project proposal which involves the injection of CO₂ or other tertiary injectant into the Unitized Formation shall require the approval of seventy-five percent (75%) of the total voting interest at the time

of the vote. However, should any one Working Interest Owner have more than twenty-five percent (25%) of the voting interest, its negative vote or failure to vote shall not defeat this proposal, and said proposal will pass if approved by Working Interest Owners having a majority voting interest, unless two (2) or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the proposal or fail to vote.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram or facsimile machine addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may decide any matter by vote taken (without a meeting) by letter, telegram or facsimile machine followed by U.S. Mail or by overnight delivery service, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called, as provided in Article 4.2, within fourteen (14) days after such proposal is dispatched to Working Interest Owners. If a meeting is called within the fourteen (14) days, then the poll vote is canceled and the vote shall be held at the meeting. Such vote will be final and Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES

OF WORKING INTEREST OWNERS

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

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

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

5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data pertaining

to Unit Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

5.2.3 Audits. The right to audit the accounts of Unit Operator according to the provisions of Exhibit "E". Any unresolved audit exceptions shall be resolved in accordance with COPAS Bulletin Number 3 or other current COPAS Bulletin.

5.2.4 CO₂. The right to supply in-kind its proportionate share of any CO₂ used in tertiary recovery or enhanced recovery operations.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. PHILLIPS PETROLEUM COMPANY is hereby designated as initial Unit Operator.

6.2 Resignation or Removal of Unit Operator. Unit Operator may resign at any time. Resignation or removal of Unit Operator shall be handled in accordance with and under the provisions of Section 7 of the Unit Agreement.

If the Unit Operator becomes insolvent, bankrupt, or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators. If a petition for relief under the federal bankruptcy laws is filed by or against Unit Operator, and the removal of the Unit Operator is prevented by the federal bankruptcy court, all Non-Operators and the Unit Operator shall comprise an interim operating committee to serve until Unit Operator has elected to reject or assume this Agreement pursuant to the Bankruptcy Code, and an election to reject this Agreement by Unit Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Unit Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls Unit Operations, all actions shall require the approval of two (2) or more parties owning a majority of Phase VI of Unit Participation.

If Unit Operator sells all of its interest in the Unit, it shall be deemed to have resigned without any action by Non-Operators. However, a merger or consolidation or the change of a corporate or partnership name or the sale or transfer to a subsidiary, parent company, a subsidiary of a parent company or an affiliate organization shall not be construed as a sale of all of the Unit Operator's interest in the Unit Area.

6.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners as provided in Section 8 of the Unit Agreement.

In the event no Working Interest Owner obtains the percentage necessary to become successor Unit Operator under Section 8 of the Unit Agreement, a Unit Manager shall be selected by a plurality of Unit Participation of the Phase then in effect and shall perform the duties of Unit Operator until a successor Unit Operator is elected.

6.4 Records and Information. The Unit Operator resigning or being removed shall give complete cooperation to the new Unit Operator and shall deliver to its successor all records and information necessary to the discharge of the new Unit Operator's duties and obligations.

ARTICLE 7

POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Rights to Operate Unit. Subject to the other provisions of this Agreement, and to the orders, directions and limitations rightfully given or imposed by 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 all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or in similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations 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 the gross negligence or willful misconduct of Unit Operator.

7.3 Liens and Encumbrances. Unit Operator shall reasonably endeavor to keep the land and leases in the Unit Area and the Unit Equipment free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees

shall be determined by Unit Operator. Such employees shall be employed by Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, in accordance with Generally Accepted Accounting Principles, accounts and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner, periodic reports of the development and operation of the Unit Area.

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 each Working Interest Owner, upon written request, a copy of the logs and copies of 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 Fifty Thousand Dollars (\$50,000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures in excess of Fifty Thousand Dollars (\$50,000) 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 in accordance with Exhibit "E", Article II.8. Unit Operator may employ its own tools and equipment, but the charge therefore shall not exceed the prevailing rate 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.

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

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the

Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions, whether on real or personal property 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 property 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. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Unit Operator, to protest and resist any such assessment.

If the ad valorem taxes are based in whole or in part upon separate valuation of each party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account for ad valorem taxes shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's Working Interest.

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

8.3 Income Tax Election. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this Agreement and 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 1986, as permitted and authorized by Section 761 of the Code and regulations promulgated thereunder. Unit Operator is 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 Treasury Regulation 1.761. Should there be any requirement that each Party hereto give further evidence of this election, each such Party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each Party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the 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 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the Parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing 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 9

INSURANCE

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

- (a) comply with the Workers Compensation Laws of the State of New Mexico, and
- (b) carry Employer's Liability insurance with a limit of \$1,000,000 per occurrence.

This provision is subject to the terms and conditions of Exhibit "D" hereto.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Well Equipment. All usable wells listed on Exhibit "H" as defined in Article 11.2, together with the casing, tubing, and down-hole equipment up to and including all well head connections.

10.1.2 Lease and Operating Equipment. All surface lease and well operating equipment, including all associated noncontrollable items, salt water disposal wells and facility systems related to current production from the Unitized Formation, which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations.

10.1.2.1. Temporary Use of Equipment. The Unit Operator, with approval of the Pre-Unitization Owner(s), may temporarily use equipment and facilities defined in Article 10.1.2 hereof and not accepted for permanent use in Unit Operations, for a period not to exceed six (6) months from effective date of Unitization, if the use of such equipment and facilities will prevent the loss of production while awaiting re-routing of pipelines or building of new facilities for production within the unitized area. If the equipment is not returned to the Pre-Unitization Owner(s) within the prescribed period, and the Pre-Unitization Owner(s) do not request the return of specific equipment, the equipment and/or facilities will be purchased on behalf of the Working Interest Owners and charged to the joint account in accordance with the pricing provisions of Exhibit "E" attached hereto.

10.1.3 Records. A copy of all production and well records pertaining to any well which has historically or is currently producing from the Unitized Formation.

10.2 Inventory and Evaluation of Personal Property. Unit Operator shall prepare a list of each Working Interest Owner's current major equipment within the Unit Area that is to be inventoried into the joint account. A Working Interest Owner may remove any item(s) from his list only on the condition that the Unit may use it as long as needed prior to return as provided in Article 10.1.2.1. hereinabove. This list shall include all of a Working Interest Owner's current equipment being utilized in producing the Unitized Formation, except that an item(s) may be deleted from the list, by the Unit Operator, based upon an environmental assessment as provided in Article 12.2 hereof. The Unit Operator shall have until the actual inventory is performed to recommend deletion of additional items based upon revised environmental assessments. Working Interest Owners shall appoint an inventory committee which shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least fifteen(15) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the

inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit operations. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May 1971, or any amendments thereto, published by the Council of Petroleum Accountants Societies, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E", Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and necessary. It is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

10.3 Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the provisions of Article 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations. Within sixty (60) days after receipt of such inventory and valuation, each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all Working Interest Owners if approved by Phase I Working Interest Owners in accordance with Article 4.3.2 hereinabove.

10.4 Investment Adjustments. Within one hundred twenty (120) days after approval by Working Interest Owners of the inventory and valuations as provided in Article 10.3, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Articles 10.1.1 and 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Articles 10.1.1 and 10.1.2 by such Working Interest Owner's Phase I Unit Participation, as shown on Exhibit "C", attached hereto. If the charge against any Working Interest Owner is greater than the amount credited to such

Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.5 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facilities systems, and office building necessary for Unit Operations shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.6 Ownership of Personal Property and Facilities. Each working Interest Owner, individually, shall, by virtue hereof, own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement equal to its then current Unit Participation as shown on Exhibit "C" attached hereto.

ARTICLE 11

WELLBORES

11.1 Demand Wells. Upon written demand by the Unit Operator made anytime at or after the Effective Date of Unitization pursuant to the Unit Plan of Operations, the Working Interest Owners will provide a usable wellbore as defined in Article 11.2, Usable Wellbore Definition on each location as specified in Exhibit "H" attached hereto. The heading "Demand Well Assessment I" denotes wells that are assumed to be usable as defined under said Article 11.2. Wells under Demand Well Assessment I may be found to be unusable through testing provided for in Article 11.2 and, if so, said well may be made usable pursuant to provisions of Article 11.2.1, Wellbores Made Usable. Wells under Demand Well Assessment I found to be unusable and not made usable under provisions of this Agreement will be subject to Article 11.3, Demand Well Drilling Pool.

The heading "Demand Well Assessment II" in said Exhibit "H" denotes wells that are presumed to be unusable at the Effective Date of Unitization and therefore said wells are immediately subject to Article 11.3, Demand Well Drilling Pool. The Working Interest Owner of a well under Demand Well Assessment II has the option to make such well usable pursuant to Article 11.2.1. If a well under Demand Well Assessment II is made usable, the participant's interest in the Demand Well Drilling Pool is subject to adjustment as provided in Article 11.3.1,

Calculation of Demand Well Drilling Pool.

11.2 Usable Wellbore Definition. Usable wellbores are defined as wells with status as follows:

- (1) Wells active on the Effective Date of Unitization will be accepted as usable if no zones other than the Unitized Formation are open and upon first entry by the Unit Operator the wellbore passes both a casing integrity test and a Bradenhead Integrity Test (hereinafter "Bradenhead Test"), defined as a test to insure that there is no gas or liquid flow nor any sustained pressure from any casing annulus in accordance with the State policies for casing integrity and Bradenhead tests at the time of unitization. It is the responsibility of the present operator of each well to be included in the Unit to install the risers and valves necessary to perform a Bradenhead Test. If zones above the Unitized Formation are open, the non-unitized zones must be cement squeezed to isolate the Unitized Formation, pressure tested in accordance with the State policy at the time of unitization, and cement in the production casing drilled out; or, if open-hole, a 4-1/2" or larger liner must be run and set with cement to the top of the Unitized Formation, and the casing tested above the Unitized Formation in accordance with the State policy at the time of Unitization.
- (2) Wells shut-in or temporarily abandoned on Effective Date of Unitization will be accepted as usable if no zones other than the Unitized Formation are open and the well is free of junk and debris to the depth of deepest production from the Unitized Formation prior to being shut-in (latest plugged back total depth from workovers in the Unitized Formation prior to shut-in). The well must pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the State policies at the time of Unitization.
- (3) Currently plugged and abandoned or recompleted wells that have previously produced from the Unitized Formation will be accepted as usable if they are restored to the Unitized Formation's last producing completion interval, are not open in non-unitized

zones, are free of junk and debris down to the latest plugged back total depth prior to cessation of production, and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the State policies at the time of Unitization.

- (4) Alternate wells from existing wellbores will be accepted as usable if all non-unitized zones have been abandoned (i.e., deeper zones plugged back with a cast iron bridge plug or cement retained capped with 35 feet of cement and pressure tested to 500 psi; shallower zones squeeze cemented, cement drilled out in the production casing and pressure tested), they penetrate the Unitized Formation, have sufficient casing size (5-1/2") to be deepened or have at least (4-1/2") casing set to the top of the Glorieta Formation, are adequately cemented and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the State policies at the time of Unitization.
- (5) All usable wellbores defined under Article 11.2 hereof must have a minimum of a (4-1/2") casing or a (4-1/2") liner set in or through the Unitized Formation with no permanent restrictions less than (4-1/2") interior dimensions from the base of the Unitized Formation to the surface.

11.2.1 Wellbores Made Usable. After the Effective Date of Unitization, but prior to the expiration of the two (2) year period provided for in Article 11.2.2 hereinbelow, the Unit Operator will notify Pre-Unitization Owner(s) of wells that are determined not to be in "Usable Condition". Within thirty (30) days of said notification, Pre-Unitization Owner(s) must advise the Unit Operator of their proposed plan to make the well "Usable". Pre-Unitization Owner(s) may elect to perform workover operations to attempt to make a deficient well "Usable", but the Unit Operator reserves the right to review and approve any of the workover procedure(s). The Unit Operator must be notified at least five (5) days prior to commencement of workover operations and his representative permitted to witness the operations. If the Pre-unitization Owner(s) performing said workover operations fail to deliver a "Usable" wellbore within sixty (60) days of the original notification from the Unit Operator, they shall plug and

abandon the Unitized Formation per State requirements and be assessed the demand well assessment(s) as provided for under Demand Well Assessment I and/or II in Exhibit "H" attached hereto and further be subject to the provisions of Article 11.3 hereof. The Working Interest Owners will not be liable for any cost or expense when work is performed by Pre-Unitization Owner(s).

Pre-Unitization Owner(s) may request that workover operations required to make a wellbore "Usable" be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine the required workover operations are technically feasible and can be performed on a timely basis, then the Unit Operator may, at its sole discretion, agree to perform the required work. The Pre-Unitization Owner(s) shall bear and pay the sole cost, risk, and expense of such workover operations up to the Demand Well Assessment I or II charge. If the Unit Operator estimates that such workover operations will cost in excess of the Demand Well Assessment I and/or II indicated in Exhibit "H" attached hereto, an AFE for the amount of said excess will be submitted to the Working Interest Owners for their approval prior to the start of the workover operations, with the excess amount being charged to the joint account, based on Phase VI of Unit Participation.

11.2.2 Wellbores Accepted as "Usable Wellbores". Any wellbore dedicated to the Unit shall not be accepted as a "Usable Wellbore" until it can be entered by the Unit Operator and assessed pursuant to Article 11.2. Furthermore, the Unit Operator may reject any wellbore pursuant to Article 12.2 hereof. Notwithstanding anything contained herein to the contrary, any well that is neither rejected pursuant to Article 12.2 herein below nor assessed pursuant to Article 11.2 within two (2) years following the effective date of unitization shall then be deemed a "Usable Wellbore". Pre-Unitization Owner(s) may, at their own expense, cause a test to be performed establishing a wellbore acceptable as a "Usable Wellbore" after the effective date of the Unit. The test procedure must be approved and the test witnessed by the Unit Operator as provided for in Article 11.2.1 herein.

11.3 Demand Well Drilling Pool. All Working Interest Owners assessed a Demand Well Assessment under Articles 11.1 or 11.2 hereof and in the amounts provided for under Demand Well Assessment I and/or II in Exhibit "H" attached hereto shall become a participant in the Demand Well Drilling Pool hereinafter

referred to as "Pool." The interest of each participant will be subject to an adjustment as described in Article 11.3.1 hereof from the effective Date of Unitization for and including the two year period provided in Article 11.2.2 hereinabove. At the end of the two year period, said participant's interest in the Pool shall become fixed until the Unit has been terminated. Calculation of a participant's interest in the Pool shall be determined pursuant to Article 11.3.1 herein below.

11.3.1 Calculation of Demand Well Drilling Pool. Pursuant to Article 11.1 hereof, each participant's interest in the Pool shall be determined by taking the individual participant's total Demand Well Assessment II dollar assessment and dividing this individual assessment by the total of all participants' total Demand Well Assessment II dollar assessment determined pursuant to said Article 11.1. Each participant's interest in the pool will be recalculated at the end of the two (2) year period as provided in Article 11.2.2 hereinabove. At that time all well(s) not accepted as "Usable" as defined under Article 11.2 or made to be "Usable" pursuant to Article 11.2.1 will be classified as Demand Well Assessment II wells. The Unit Operator will provide the Working Interest Owners an account of the final Demand Well Assessment classifications in the form of an updated Exhibit "H" to this Agreement within sixty (60) days following the end of the two (2) year period. Upon issuance of the updated Exhibit "H," each Working Interest Owner shall be credited with its individual amount of Demand Well Assessment I and/or II actually paid in the first two (2) years following the Effective Date of Unitization, and charged with an amount equal to the multiplication of the sum of all Demand Well Assessments I and II actually paid in the first two (2) years following the Effective Date of Unitization by the recalculated Demand Well Drilling Pool participation interest calculated from the updated Exhibit "H". If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

11.3.2 Payment of Demand Well Assessments. At the time any demand well

assessed under Article 11.3 is drilled, participants in the Demand Well Drilling Pool shall pay their proportionate share of Demand Well Assessment I and/or II in Exhibit "H" attached hereto associated with the drilling of any Demand Well(s). A participant who fails to pay its proportionate share of costs associated with the drilling of all Demand Wells as provided herein and approved by the Unit Working Interest Owners, within the time prescribed in Article 13.5 hereof, shall be in default of payment and action shall be initiated in accordance with the provisions of Article 13.5 hereof. All drilling costs above the individual demand well assessments determined pursuant to Article 11.1 hereof, shall be charged to the Joint Account based on Phase VI of the Unit Participation.

ARTICLE 12

ENVIRONMENTAL PROVISIONS

12.1 Environmental Assessment. On or about the effective date of Unitization, the Unit Operator will cause the environmental assessment (hereafter referred to as "Assessment") to be completed by a qualified environmental consultant on all lands within the Unitized Area. The guidelines and cost for such assessment shall be approved by the Unit Technical Committee. The costs of this Assessment will be charged to the Joint Account based on Phase VI of the Unit Participation. Should the Assessment identify any Environmental Condition, Unit Operator shall promptly notify the Pre-Unitization Owner(s) of the Property affected thereby and such Owner(s) shall have ninety (90) days after the receipt of such notification in which to commence and pursue with due diligence whatever actions may be required to correct such Environmental Condition. In the event that such Environmental Condition is not corrected in its entirety within a reasonable period of time, the Unit Operator may either elect to accept the Property, provided that such acceptance shall not affect the indemnity provided for in Article 12.3 hereof, or may provide the Pre-Unitization Owner(s) contributing the Property affected by such Environmental Condition with an election, to be exercised within thirty (30) days after receipt of such election option from the Unit Operator to either: (1) have the Unit Operator perform whatever actions may be required to correct such Environmental Condition at the sole expense of the Pre-Unitization Owner(s) contributing the Properties affected thereby, it being understood and agreed that if any Pre-Unitization Owner(s) fails to pay its share of costs associated with the correction of said Environmental Condition, said Pre-Unitization Owner(s) shall be in default of

payment and the Unit Operator shall have all of the rights described under Article 13.5 of this Agreement; or (2) exclude the Property affected by such Environmental Condition from the Unit in which event the Pre-Unitization Owner(s) of such Property shall retain all responsibility and liability for such Environmental Condition. As used herein, the term "Environmental Condition" shall be used to refer to any: (1) material environmental impairment relating to the lands, equipment or facilities being contributed to the Unit; (2) condition which may cause or contribute to such a "Material Environmental Impairment," whether on or off the Unit Area, and/or (3) noncompliance with laws or regulations, including, but not limited to those laws and regulations specifically cited in Article 12.3 hereof, pertaining to the Property. A "Material Environmental Impairment" shall be deemed to exist when there is a condition for which an environmental investigation or remediation of Property is required by existing laws or regulations. As used herein the term "Property" shall be deemed to refer to all real and personal property and fixtures including, but not limited to, land, equipment and wellbores, which are or may be contributed to the Unit.

Reference to land in this Article means surface lands and fresh water formations (e.g., contaminated soils). Nothing in this Article shall be construed to remove, eliminate or limit any of the Unitized Formation from the Unit Area and nothing in this Article shall be construed to remove, eliminate or limit any rights of ingress or egress to the Unit Area.

12.2 Subsequent Discovery of Environmental Conditions. The provisions pertaining to the handling of Environmental Conditions described in Article 12.1 shall also be applicable to any Environmental Condition which is discovered or made known to the Unit Operator within two (2) years of the effective date of the unitization; provided that the inventory shall be adjusted as appropriate in accordance with Article 10.2.

12.3 Indemnity Provision. Notwithstanding any action or failure to act, on the part of the Unit Operator or any Working Interest Owner(s) with regard to any Property that is or may be affected by an Environmental Condition, each Working Interest Owner herein agrees to protect, indemnify and hold all other Working Interest Owners harmless against all claims, demands, damages, losses, liabilities, penalties, fines, liens, judgments, costs or expenses whatsoever, including, without limitation, attorney's fees and costs (hereinafter, such

claims, demands, etc., shall be collectively referred to as "Claims") known, or unknown, foreseen or unforeseen, whether or not based on common law, civil law, statute or regulation, that may arise on account of or in connection with any real or personal property or fixtures contributed to the Unit by the indemnifying Working Interest Owner, except to the extent that such Claim arises as a result of Unit Operations. It is understood that the Claims covered hereby shall include all matters pertaining to environmental and environmentally related laws, including, but not limited to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), the Clean Water Act (33 U.S.C. Section 466 et seq.), the Safe Drinking Water Act (14 U.S.C. Sections 1401-1450), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801 et seq.), the Toxic Substances Control Act (15 U.S.C. Sections 2601-2629) and any amendments thereto or regulations adopted thereunder, as well as any state environmental and environmentally related statutes and regulations.

In addition to the Assessment provided for in Article 12.1 hereof, at any time prior to, or within one (1) year after, the Effective Date, any Working Interest Owner hereto (or group of Working Interest Owners, acting together by agreement) at its (or their) sole cost and risk shall have the right to conduct an investigation during normal business hours to determine and document the existence of any potential Claims associated with the Unit. The scope of such investigation shall be at the sole discretion of the Working Interest Owner conducting it. All other Working Interest Owners, including Unit Operator (if Unit Operator is not conducting the investigation) shall grant the Working Interest Owner conducting the investigation such access to all land, facilities and records as may be reasonably necessary to conduct such investigation. In the event that such investigation may require the disclosure of any information which the disclosing Working Interest Owner regards as proprietary or confidential, the disclosing Working Interest Owner may require that the Working Interest Owner conducting the investigation execute a confidentiality agreement imposing reasonable limits on the use and dissemination of such information. Nothing contained in this Article shall be construed as requiring a Working Interest Owner to disclose any material regarded by attorneys of the disclosing Working Interest Owner as protected by the attorney client privilege or the attorney work

product doctrine.

ARTICLE 13

DEVELOPMENT AND OPERATING COSTS

13.1 Basis of Charge to Working Interest Owners. Subject to the provisions of Article 13.2 hereof, Unit Operator initially shall pay all Unit Expenses. All charges, credits and accounting for Unit Expenses shall be in accordance with Exhibit "E" attached hereto. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expenses in accordance with the following:

13.1.1 Production Operating Expenses. All operating costs associated with producing wells or production facilities and the monthly operating overhead costs for producing wells prescribed in Exhibit "E" attached hereto shall be allocated to the Working Interest Owners based upon the current Phase of Unit Participation.

13.1.2 Enhanced Recovery Operating Expenses. All operating costs associated with injection wells, injection lines, injection facilities, monthly operating overhead costs for injection wells prescribed in Exhibit "E" attached hereto and the cost of injection fluids shall be allocated to the Working Interest Owners based upon Phase VI of Unit Participation.

13.1.3 Investment Costs. All costs for equipment, drilling and completion of wells, conversion of wells for injection and/or disposal purposes, construction of production or enhanced recovery facilities and drilling overhead costs and major construction and catastrophe overhead costs prescribed in Exhibit "E" attached hereto shall be allocated to the Working Interest Owners based upon Phase VI of Unit Participation.

13.2 Advance Billings. Unit Operator shall have the right, at its option to require other Working Interest Owners to advance their respective proportions of estimated development and operating costs and expenses pursuant to Exhibit "E", Section I, Paragraph Number 3.

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

13.4 Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure

payment of its share of Unit Expense, together with interest thereon at the Prime rate set by Citibank of New York, for the same period + 1% per annum or the maximum contract rate permitted by the applicable usury laws in the State of New Mexico, whichever is the lesser, plus attorney's fees, court costs and other costs in connection with the collection of unpaid amounts. For the purposes of Public Notice of said Lien and Security Interest of Unit Operator and Working Interest Owners, Exhibit "I" attached hereto will be filed in the public records of Lea County, New Mexico. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

13.5 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefore by Unit Operator, each non-defaulting Working Interest Owner, including Unit Operator as a Working Interest Owner, shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all non-defaulting Working Interest Owners. Working Interest Owners who pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon pursuant to paragraph 3.b of Section I of Exhibit "E," upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. A defaulting Working Interest Owner, after proper notification under the notice provisions herein contained, shall lose its voting interest (as defined in Article 4.3.1) during its period of default. Nevertheless, a Working

Interest Owner's failure to pay properly protested charges pending their resolution does not constitute default. Its voting rights shall be shared proportionally and exercised by each of the non-defaulting Working Interest Owners as provided for in Article 4.3. Each Working Interest Owner paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Article 13.4 of this Agreement.

13.6 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, Article 13.4 hereof entitled "Lien and Security Interest of Unit Operator and Working Interest Owners." If the Working Interest Owner creating such carved-out interest (1) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 18 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though 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 Article 13.4 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

13.7 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator upon written request evidence of payment.

13.8 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 August thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

ARTICLE 14

NON-UNITIZED FORMATIONS

14.1 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 overlying or underlying the Unitized Formation within the Unit Area, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to other Working Interest Owners so that production of Unitized Substances will not be adversely affected.

14.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion.

ARTICLE 15

TITLES

15.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest as shown to be owned by it on appropriate Exhibits to this Agreement and hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to failure in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of Unit Expense or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

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

ARTICLE 16

LIABILITY, CLAIMS AND SUITS

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

16.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty-five Thousand Dollars (\$25,000.00) 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 determine the further handling of the claim or suit, unless such authority is 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, subject to such limitation as is set forth in Exhibit "E". If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations 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 Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 17

NOTICES

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

ARTICLE 18

WITHDRAWAL OF WORKING INTEREST OWNER

18.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all 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, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations as provided in Article 10.6 and Article 13.1.3 hereof. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations including all associated cleanup costs, as determined by Working interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator, and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

18.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 18.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payment, net proceeds interest, carried interest, or any other interest created out of the Working interest in excess of three-sixteenths (3/16ths), unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such

burdens.

ARTICLE 19

ABANDONMENT OF WELLS

19.1 Rights of Pre-Unitization Owners. If Working Interest Owners decide to permanently abandon any usable wellbore completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owner(s) of the Tract on which such well is located and said Working Interest Owner(s) shall have the right and option for a period of sixty (60) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within sixty (60) days after said Working Interest Owner(s) have so notified Unit Operator of their desire to take over such well, they shall pay the Unit Operator, for credit to the Joint Account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well, except casing and other equipment originally contributed at no cost, plus costs to seal off the Unitized Formation and perform casing integrity and Bradenhead tests. The Working Interest Owner(s) of the Tract, by taking over the well, agree upon abandonment to plug the well in compliance with all applicable laws and regulations.

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

ARTICLE 20

EFFECTIVE DATE AND TERM

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

20.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until (a) all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21 hereof, (b) all personal and real property acquired for the Joint Account of Working Interest Owners have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting, (d) all required surface and subsurface

restoration has been performed.

ARTICLE 21

ABANDONMENT OF OPERATIONS

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

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

21.1.2 Right to Operate. Working Interest Owner(s) of any Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the Joint Account, the net salvage, as determined by the Working Interest Owners, of the equipment in and on the well, except casing and other equipment originally contributed at no cost, and by agreeing to properly plug the well at such time as it is abandoned.

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

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

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

ARTICLE 22

LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

22.1 Laws and Regulations. This Agreement and operations hereunder are subject to all valid laws and valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders; and any provision of this Agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

22.2 Certificates of Compliance. In the performance of work under this Agreement, the parties agree to comply and Unit Operator shall require each

independent contractor to comply with provisions of Exhibit "F".

22.3 Compliance by Unit Operator. Unit Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf of any one or more of the parties to this Agreement under the provisions of this Agreement and/or any amendments to it.

22.4 Financial Accounting. Unit Operator agrees that all financial settlement, billings, and reports rendered to any one or more of the parties to this Agreement, as provided for in this Agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties for whatever purpose.

ARTICLE 23

GOVERNMENTAL REGULATIONS

23.1 Governmental Regulations. Working Interest Owners agree to release Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of rules, rulings regulations or orders of any governmental agency or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Working Interest Owners further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with their proportionate part of interest and penalties owing by Unit Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders to the extent that such incorrect interpretation or application was made in good faith.

ARTICLE 24

COUNTERPART EXECUTION

24.1 Counterpart Execution. 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. Furthermore, this Agreement shall extend to and

be binding on the parties hereto, their successors, heirs and assigns.

ARTICLE 25

INTENT OF THE PARTIES AND AMENDMENTS


25.1 Intent of the Parties. Subject only to the Unit Agreement herein referenced above, this Agreement and its Exhibits shall constitute the entire contract of the parties hereto and there are no other agreements, undertakings, obligations, promises, assurances or conditions, whether precedent or otherwise, except those specifically set forth. In the event of any conflict between this Agreement and the Exhibits attached hereto, this Agreement will prevail.

25.2 Amendments to this Agreement. This Agreement may be amended only by mutual agreement between the Working Interest Owners, comprising a minimum of 90% of the Phase VI Unit Participation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

PHILLIPS PETROLEUM COMPANY

Date 13 SEPTEMBER 1993

By 
JOA DEL

ARCO OIL & GAS COMPANY

Date _____

By _____

CHEVRON USA, INC.

Date _____

By _____

EXXON CORPORATION

Date _____

By _____

MARATHON OIL COMPANY

Date _____

By _____

SHELL WESTERN E&P INC.

Date _____

By _____

OXY USA, INC.

Date _____

By _____

TEXACO EXPLORATION AND PRODUCTION INC.

Date _____

By _____

THE MCBEE COMPANY

Date _____

By _____

STATE OF TEXAS }

COUNTY OF ECTOR }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by J. S. Welin, as Attorney-in-Fact, of Phillips Petroleum Company, a Delaware corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS }

COUNTY OF }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Arco Oil & Gas Company, a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS }

COUNTY OF }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Chevron USA, Inc., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS }
COUNTY OF }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Exxon Corporation, a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS }
COUNTY OF }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Marathon Oil Company, a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS }
COUNTY OF }

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Shell Western E&P Inc., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS)

COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of OXY USA, Inc., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS)

COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of Texaco Exploration and Production Inc., a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

STATE OF TEXAS)

COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by _____, as _____, of The McBee Company, a _____ corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

My Commission Expires:

ATTACHED TO AND MADE A PART OF THAT CERTAIN
VACUUM GLORIETA EAST UNIT OPERATING AGREEMENT DATED SEPTEMBER 10, 1993
BETWEEN PHILLIPS PETROLEUM COMPANY AS OPERATOR
AND ARCO OIL AND GAS COMPANY, ET AL AS NON-OPERATOR

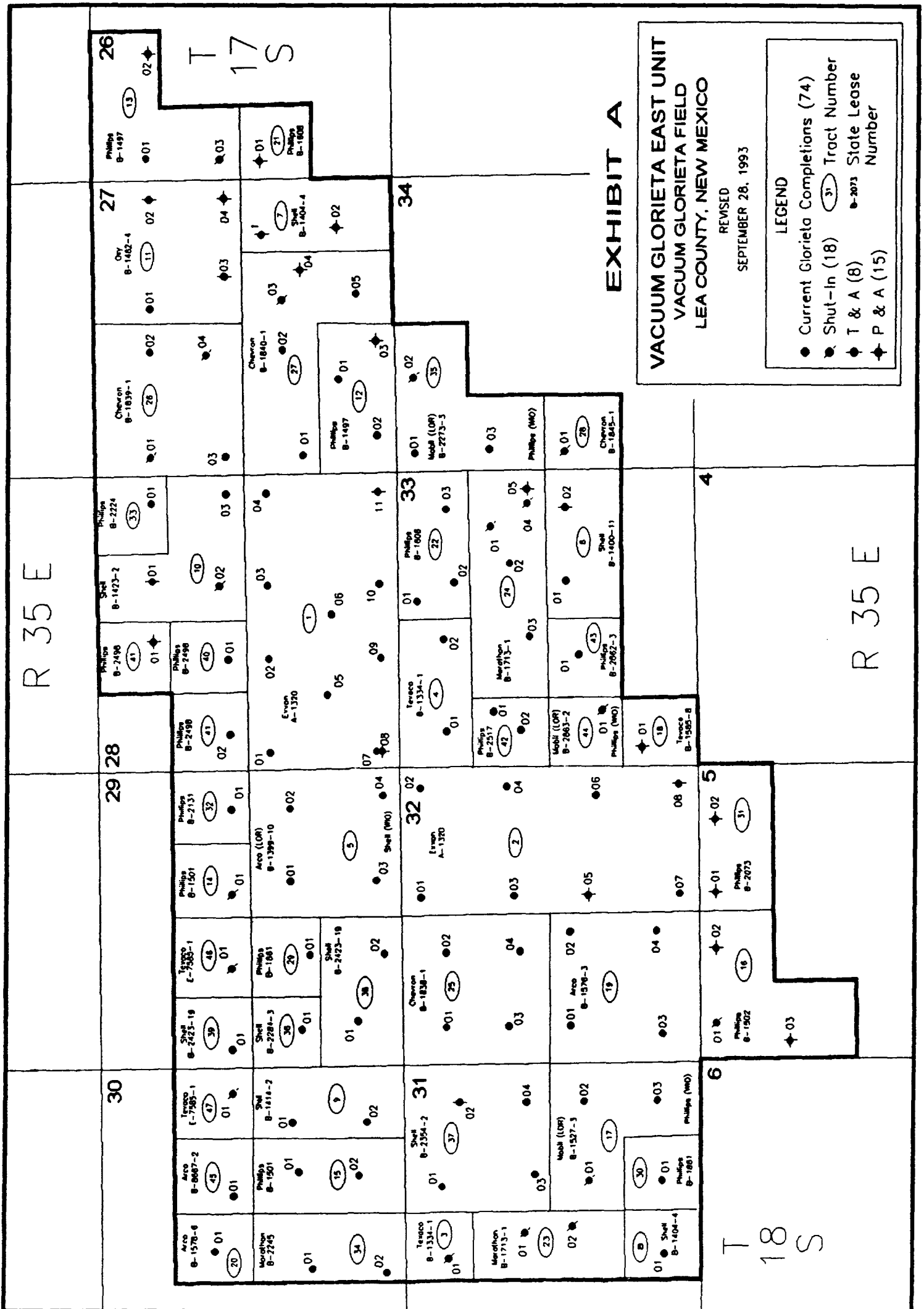


EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN VACUUM GLORIETA EAST UNIT OPERATING AGREEMENT
DATED SEPTEMBER 10, 1993, BETWEEN PHILLIPS PETROLEUM COMPANY AS OPERATOR
AND ARCO OIL AND GAS COMPANY, ET AL AS NON-OPERATOR

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
1	11-22-28	State K	24241-001	T17S-R35E Sec. 28: S/2 Lea County, New Mexico	320.00	A-1320	12.5	Exxon Corporation	None	Exxon Corporation 100%
2	11-22-28	State K	24241-001	T17S-R35E Sec. 32: E/2 Lea County, New Mexico	320.00	A-1320	12.5	Exxon Corporation	None	Exxon Corporation 100%
3	11-16-32	Skelly J State	NM316668	T17S-R35E Sec. 31: NE/4 NW/4 Lea County, New Mexico	40.00	B-1334-1	12.5	Texaco Exploration & Production Inc.	None	Texaco Expl.& Pr.Inc. 100%
4	11-16-32	Skelly P State	NM316668	T17S-R35E Sec. 33: N/2 NW/4 Lea County, New Mexico	80.00	B-1334-1	12.5	Texaco Exploration & Production Inc.	None	Texaco Expl.& Prod.Inc. 96.027% Shell Western E&P Inc. 3.973%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO. OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
5	12-03-32	State M	NM-890	T17S-R35E Sec. 29: SE/4 Lea County, New Mexico	160.00	B-1399-10	12.5	Arco Oil & Gas Co.	None	Shell Western E&P Inc. 100%
6	12-03-32	State T	NM-891	T17S-R35E Sec. 33: N/2 SE/4 Lea County, New Mexico	80.00	B-1400-11	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
7	12-03-32	State V	NM-878	T17S-R35E Sec. 27: E/2 SE/4 Lea County, New Mexico	80.00	B-1404-4	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
8	12-03-32	State E	NM-878	T17S-R35E Sec. 31: SE/4 SW/4 Lea County, New Mexico	40.00	B-1404-4	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
9	12-03-32	State B	NM-882	T17S-R35E Sec. 30: E/2 SE/4 Lea County, New Mexico	80.00	B-1414-2	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
10	12-03-32	State N	NM-575	T17S-R35E Sec. 28: W/2 NE/4, SE/4 NE/4 Lea County, New Mexico	120.00	B-1423-2	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
11	11-26-32	State K	6-3010106	T17S-R35E Sec. 27: NE/4 Lea County, New Mexico	160.00	B-1482-4	12.5	OXY USA Inc.	None	OXY USA Inc. 100%
12	12-19-32	Santa Fe	015370-000	T17S-R35E Sec. 27: S/2 SW/4 Lea County, New Mexico	80.00	B-1497	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
13	12-19-32	Santa Fe	015201-000	T17S-R35E Sec. 26: W/2 NW/4, NE/4 NW/4 Lea County, New Mexico	120.00	B-1497	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
14	12-19-32	Santa Fe	015201-000	T17S-R35E Sec. 29: SW/4 NE/4 Lea County, New Mexico	40.00	B-1501	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
15	12-19-32	Santa Fe	015203-000	T17S-R35E Sec. 30: W/2 SE/4 Lea County, New Mexico	80.00	B-1501	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
16	12-19-32	Santa Fe	015204-000	T18S-R35E Sec. 5: Lots 3 & 4, SW/4 NW/4 Lea County, New Mexico	119.95	B-1502	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
17	12-21-32	State K	221487-000	T17S-R35E Sec. 31: N/2 SE/4, SE/4 SE/4 Lea County, New Mexico	120.00	B-1527-3	12.5	Mobil Producing Texas & New Mexico, Inc.	None	Phillips Petroleum Company 100%
18	12-29-32	State BC	NM82148	T17S-R35E Sec. 33: SW/4 SW/4 Lea County, New Mexico	40.00	B-1565-8	12.5	Texaco Exploration & Production Inc.	None	Texaco Expl.& Pr.Inc. 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
19	01-04-33	State B-1576	30-025-006000-001	T17S-R35E Sec. 32: SW/4 Lea County, New Mexico	160.00	B-1576-3	12.5	Arco Oil & Gas Co.	None	Arco Oil & Gas Co. 100%
20	01-04-33	State B-1578	30-025-006000-001	T17S-R35E Sec. 30: SE/4 NW/4 Lea County, New Mexico	40.00	B-1578-6	12.5	Arco Oil & Gas Co.	None	Arco Oil & Gas Co.66.67% Wm B McBee 33.33%
21	01-10-33	Santa Fe	015214-000	T17S-R35E Sec. 26: NW/4 SW/4 Lea County, New Mexico	40.00	B-1608	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
22	01-10-33	Santa Fe	015214-000	T17S-R35E Sec. 33: N/2 NE/4 Lea County, New Mexico	80.00	B-1608	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
23	02-10-33	Warn St AC 1	01-01-NM-387	T17S-R35E Sec. 31: SE/4 NW/4, NE/4 SW/4 Lea County, New Mexico	80.00	B-1713-1	12.5	Marathon Oil Company	None	Marathon Oil Company 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO. OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
24	02-10-33	Warn St AC 3	01-01-NM-387	T17S-R35E Sec. 33: S/2 NE/4, SE/4 NW/4 Lea County, New Mexico	120.00	B-1713-1	12.5	Marathon Oil Company	None Company	Marathon Oil 100%
25	03-31-33	State 3-32	T49-0110	T17S-R35E Sec. 32: NW/4 Lea County, New Mexico	160.00	B-1838-1	12.5	Chevron USA, Inc.	None	Chevron USA, Inc. 100%
26	03-31-33	State 5-27	T49-0310	T17S-R35E Sec. 27: NW/4 Lea County, New Mexico	160.00	B-1839-1	12.5	Chevron USA, Inc.	None	Chevron USA, Inc. 100%
27	03-31-33	State 4-27	T49-0520	T17S-R35E Sec. 27 N/2 SW/4, W/2 SE/4 Lea County, New Mexico	160.00	B-1840-1	12.5	Chevron USA, Inc.	None	Chevron USA, Inc. 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
28	03-31-33	State 6-34	T49-0420	T17S-R35E Sec. 34: NW/4 SW/4 Lea County, New Mexico	40.00	B-1845-1	12.5	Chevron USA, Inc.	None	Chevron USA, Inc. 100%
29	04-10-33	Santa Fe	015221-000	T17S-R35E Sec. 29: NE/4 SW/4 Lea County, New Mexico	40.00	B-1861	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
30	04-10-33	Santa Fe	015221-000	T17S-R35E Sec. 31: SW/4 SE/4 Lea County, New Mexico	40.00	B-1861	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
31	08-10-33	Santa Fe	015370-000	T18S-R35E Sec. 5: Lots 1 & 2 Lea County, New Mexico	79.85	B-2073	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
32	09-11-33	Santa Fe	015395-000	T17S-R35E Sec. 29: SE/4 NE/4 Lea County, New Mexico	40.00	B-2131	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
33	05-22-34	Santa Fe	015472-000	T17S-R35E Sec. 28: NE/4 NE/4 Lea County, New Mexico	40.00	B-2224	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
34	11-22-33	Staplin State AC I	01-01-NM-265	T17S-R35E Sec. 30: E/2 SW/4 Lea County, New Mexico	80.00	B-2245	12.5	Marathon Oil Company	None	Marathon Oil Company 100%
35	12-07-33	State M	221489-000	T17S-R35E Sec. 34: N/2 NW/4, SW/4 NW/4 Lea County, New Mexico	120.00	B-2273-3	12.5	Mobil Producing Texas & New Mexico, Inc.	None	Phillips Petroleum Company 100%
36	12-09-33	State H	NM-1117	T17S-R35E Sec. 29: NW/4 SW/4 Lea County, New Mexico	40.00	B-2284-3	12.5	Shell Western E&P Inc.		Shell Western E&P Inc 100%

ORRI of 1/16 X 8/8
William Edward Burgland
and Betty B. Karay, Co-
Trustees of Frederick
H. Burgland Trust, 1835
Santa Barbara Drive,
Denedin, FL 34698

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO. OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
37	01-02-34	State A	NM-1021	T17S-R35E Sec. 31: NE/4 Lea County, New Mexico	160.00	B-2354-2	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
38	01-15-34	State F	NM-1042	T17S-R35E Sec. 29: S/2 SW/4 Lea County, New Mexico	80.00	B-2423-19	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
39	01-15-34	State I	NM-1019	T17S-R35E Sec. 29: SW/4 NW/4 Lea County, New Mexico	40.00	B-2423-19	12.5	Shell Western E&P Inc.	None	Shell Western E&P Inc. 100%
40	05-22-34	Santa Fe	015628-000	T17S-R35E Sec. 28: SE/4 NW/4 Lea County, New Mexico	40.00	B-2498	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
41	05-22-34	Santa Fe	015628-000	T17S-R35E Sec. 28: SW/4 NW/4, NE/4 NW/4 Lea County, New Mexico	80.00	B-2498	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO. OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
42	02-10-34	Santa Fe	015635-000	T17S-R35E Sec. 33: SW/4 NW/4 Lea County, New Mexico	40.00	B-2517	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
43	05-21-34	Santa Fe	021796-000	T17S-R35E Sec. 33: NE/4 SW/4 Lea County, New Mexico	40.00	B-2862-3	12.5	Phillips Petroleum Company	None	Phillips Petroleum Company 100%
44	05-21-34	State 0	221490-000	T17S-R35E Sec. 33: NW/4 SW/4 Lea County, New Mexico	40.00	B-2863-2	12.5	Mobil Producing Texas & New Mexico, Inc.	None	Phillips Petroleum Company 100%
45	05-10-40	State "L" DE	30-025-0006525- 001	T17S-R35E Sec. 30: SW/4 NE/4 Lea County, New Mexico	40.00	B-8667-2	12.5	Arco Oil & Gas Co.	None	Arco Oil & Gas Co. 100%
46	11-17-53	NM CG St NCT 2	NM163199	T17S-R35E Sec. 29: SE/4 NW/4 Lea County, New Mexico	40.00	E-7585-1	12.5	Texaco Exploration & Production Inc.	None	Texaco Expl. & Pr.Inc. 100%

TRACT NO.	LEASE DATE	LEASE NAME	COMPANY LEASE NUMBER	DESCRIPTION	NO.OF ACRES	STATE LEASE NUMBER	LEASE ROYALTY RATE (PERCENTAGE)	LESSEE OF RECORD	OVERRIDING ROYALTY PERCENTAGE	WORKING INTEREST OWNER & %
47	11-17-53	NM CG St NCT 1	NM163199	T17S-R35E Sec. 30: SE/4 NE/4 Lea County, New Mexico	40.00	E-7585-1	12.5	Texaco Exploration & Production Inc.	None	Texaco Expl.& Pr.Inc. 100%

TOTAL STATE ACREAGE

4,239.80

PH/VACEAST.EXB

EXHIBIT "C"
 ATTACHED TO AND MADE A PART OF
 THAT CERTAIN VACUUM GLORIETA EAST
 UNIT OPERATING AGREEMENT DATED SEPTEMBER 10, 1993
 LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER SUMMARY OF
 UNIT PARTICIPATION

UNIT PARTICIPATION

OWNER	PHASE I	PHASE II	PHASE III	PHASE IV	PHASE V	PHASE VI
ARCO	2.0143893%	2.5084431%	3.0024968%	3.4965506%	3.6941721%	3.9906043%
McBEE	0.2416238%	0.2493358%	0.2570477%	0.2647597%	0.2678445%	0.2724717%
CHEVRON	7.0158492%	8.4855064%	9.9551636%	11.4248208%	12.0126837%	12.8944780%
EXXON	34.8896172%	31.0093911%	27.1291649%	23.2489388%	21.6968483%	19.3687126%
MARATHON	12.7083777%	11.2748882%	9.8413986%	8.4079091%	7.8345133%	6.9744196%
OXY	1.4955999%	2.1409205%	2.7862412%	3.4315618%	3.6896900%	4.0768824%
PHILLIPS	9.5381826%	13.1285706%	16.7189588%	20.3093467%	21.7455021%	23.8997348%
SHELL	23.5721123%	23.6769665%	23.7818207%	23.8866750%	23.9286166%	23.9915292%
TEXACO	8.5242480%	7.5259778%	6.5277077%	5.5294375%	5.1301294%	4.5311674%

EXHIBIT "D"

**Attached to and made a part of that certain
Vacuum Glorieta East Unit Operating Agreement, dated September 10, 1993,
by and between Phillips Petroleum Company, as Unit
Operator, and Non-Operators named therein, Lea County, New Mexico**

INSURANCE PROVISIONS

1. Unit Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement:
 - a. Workers' Compensation Insurance in accordance with laws of governmental bodies having jurisdiction including, if applicable, United States Longshore and Harbor Worker's Compensation Act with Outer Continental Shelf Extension and Employer's Liability Insurance. Employers' Liability Insurance shall provide coverage of \$1,000,000 per occurrence.
 - b. Unit Operator may include the aforesaid risks under its qualified self-insurance program provided Unit Operator complies with applicable laws, and in such event, Unit Operator shall charge to the joint account, an amount determined by applying manual insurance rates to the payroll.
2. Unit Operator shall not be obligated or authorized to obtain or carry on behalf of the joint account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire at its own expense such insurance as it deems proper to protect itself against claims, losses, or damages arising out of Unit Operations provided that such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. All uninsured losses and all damages to jointly owned property shall be borne by the Parties in proportion to their respective interests.
3. Unit Operator shall promptly notify non-operators in writing of any losses involving damage to a jointly owned property in excess of \$100,000.
4. Unit Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Workmen's Compensation laws and to maintain such other insurance and in such amounts as Unit Operator deems necessary.

EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement covering the Vacuum Glorieta East Unit, Lea County, New Mexico, dated September 10, 1993 by and between Phillips Petroleum Company, as Unit Operator, and Non-Operators named therein.

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.

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

A. 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 within ~~fifteen (15) days~~ ^{thirty (30) days} after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15) days~~ ^{thirty (30) days} after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank of New York on the first day of the month in which delinquency occurs plus 1% 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. 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 a joint audit 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. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

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. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. 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.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. 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.

6. 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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

8. 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 gross investment less accumulated depreciation not to exceed twelve percent (12%) 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 8A 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.

9. 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.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. 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 Worker'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.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. 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 of direct benefit to the Joint Property and 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 3A, 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 be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

(X) shall be covered by the overhead rates, or
() shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5070
(Prorated for less than a full month)

Producing Well Rate \$ 507

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
 - (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 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 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 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 rig and crew capable of drilling to the producing interval on the Joint Property; 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 \$100,000.00:

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of 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 and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. 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 reasons, 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 basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

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

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

(2) Material used on and moved from the Joint Property

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

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

C. Other Used Material

(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 A. 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

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (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

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "F"

CERTIFICATE OF COMPLIANCE

Attached to and made a part of that certain Vacuum Glorieta East
Unit Operating Agreement, dated September 10, 1993,
Between Phillips Petroleum Company, as Unit Operator, and
Arco Oil and Gas Company, et al as Non-Operators

Unless this Agreement is exempted by law, rule, regulation or order, Unit Operator shall comply with the following clauses contained in the Code of Federal Regulations (including any revision or redesignation thereof), which are incorporated herein by reference, the full text of which will be made available upon request:

48.C.F.R.	§52.222-35	(Disabled and Vietnam Veterans);
48.C.F.R.	§52.222-36	(Handicapped Workers);
48.C.F.R.	§52.222-26	(Equal Opportunity);
48.C.F.R.	§52.219-8 and -9	(Utilization of Small and Small Disadvantaged Business Concerns);
and		
48.C.F.R.	§52.219-13	(Utilization of Women-Owned Small Businesses).

Where required by law and unless previously provided, Unit Operator shall provide a Certificate of Non-Segregated Facilities to Non-Operator and shall require its contractors and subcontractors to so provide the same to the Unit Operator. Unit Operator agrees and covenants that none of its employees or employees of its contractors or subcontractors who provide services pursuant to this Agreement are unauthorized aliens as defined in the Immigration Reform and Control Act of 1986.

EXHIBIT "G"

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Vacuum Glorieta East Unit Operating Agreement, dated September 10, 1993, between Phillips Petroleum Company as Unit Operator and Arco Oil and Gas Company, et al as Non-Operators. For the purpose of this Agreement, the Working Interest Owners are sometimes hereinafter referred to as the "parties."

I. Definitions

- A. "Affiliate" is any company that is controlled or wholly owned by another company.
- B. "Alternate Price" is the price which shall apply for purposes of Article IV or Article V whenever a party has taken Gas for its account, but has not immediately sold the Gas or where a party hereto has sold its Gas to an Affiliate. Any Gas so taken or sold shall be valued at the monthly spot market price listed for the geographical area where the Unit is located as published by Inside F.E.R.C.'s Gas Market Report unless a party can show its valuation or affiliate sales price is representative of other arms' length transactions available in the area for the same production month(s) for gas of comparable quality. If a range of prices is published for the geographical area in question, then the value of the Gas shall be calculated by averaging the different prices listed for that geographical area. The Alternate Price shall be adjusted to reflect actual gathering, treating, transportation or other gas handling costs incurred by parties selling gas from the Unitized Formation. If Inside F.E.R.C.'s Gas Market Report ceases to list monthly spot market prices for the geographical area in question, then a similar publication shall be substituted by mutual consent of the parties.
- C. "Balanced" is that condition which occurs when a party hereto has taken the same percentage of the cumulative volume of Gas production it is entitled to take pursuant to the terms of the Unit Agreement or when an Underproduced party hereto has had its Gas account equalized by payment of cash by one or more Overproduced parties hereto pursuant to the provisions of Article IV or Article V of this Agreement.
- D. "BTU" means the amount of heat required to raise the temperature of one pound of water from fifty-eight and five-tenths degrees Fahrenheit (58.5°) to fifty-nine and five-tenths degrees Fahrenheit (59.5°) at a pressure of fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and dry.
- E. "Gas" includes casinghead Gas (which is all Gas produced with crude oil) and natural Gas from Gas wells, but shall not include liquid hydrocarbons recovered by primary separation equipment.
- F. "Overproduced" is the status of a party when the percentage of the cumulative volume of Gas taken by that party exceeds that party's percentage interest as established by the Unit Agreement for the cumulative volume of Gas produced from the Unitized Formation.
- G. "Royalty Owner" shall include all owners of royalty, overriding royalties, production payments, and similar interest payable out of production.

- H. "Underproduced" is the status of a party when the percentage of cumulative volume of Gas taken by that party is less than that party's percentage interest as established by the Unit Agreement for the cumulative volume of Gas produced from the Unitized Formation.
- I. "Unit" is defined as the Vacuum Glorieta East Unit, Lea County, New Mexico.
- J. "Unit Agreement" refers to the agreement entered into by the Royalty Owners and Working Interest Owners in the Unitized Formation for the Vacuum Glorieta East Unit and approved by the New Mexico State Land Office and the New Mexico Oil Conservation Division.
- K. "Unit Operating Agreement" refers to the agreement entered into by the Working Interest Owners owning an interest in the Unitized Formation for the Vacuum Glorieta East Unit.
- L. "Unit Operator" is defined to coincide with the definition for Unit Operator found in Section 2 of the Unit Agreement for the Vacuum Glorieta East Unit.
- M. "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area found between the top of the Glorieta Formation and the base of the Paddock Formation. The top of the Glorieta Formation is defined as all points underlying the Unit Area correlative to the depth of 5,838 feet and the base of the Paddock Formation is defined as all points underlying the Unit Area correlative to the depth of 6,235 feet, both depths as identified on the Schlumberger Sonic log for the Socony Mobil Bridges State Well No. 95, located in the SE/4 SE/4 (Unit P) of Section 26, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico.

II. Application of this Agreement

The Working Interest Owners subject to the Unit Operating Agreement to which this Agreement is attached own the Gas produced from the Unitized Formation and are entitled to share in the production as stated in the Unit Agreement. In accordance with the terms of the Unit Agreement, each Working Interest Owner shall have the right to take in kind or separately dispose of its proportionate share of Gas produced from the Unitized Formation. Whenever the Gas accounts of any of the parties hereto are Overproduced or Underproduced, then this Agreement shall be in full force and effect.

The Unit Operator shall administer the provisions of this Agreement. To the extent practicable, the Unit Operator shall cause deliveries to be made at such rates as may be required to give effect to the intent that the Gas production accounts of all parties are to be or become Balanced. In so doing, the Unit Operator shall not incur any liability to any non-operator.

III. Storing and Making Up Gas Production

A. Right to Take and Market Gas

During any period or periods when any party hereto does not take, has no market for, or the market of a party is not sufficient to take that party's full share of the Gas produced from any well located within the Unit Area, or such party's purchaser otherwise fails to take such party's share of Gas produced from the Unitized Formation, the other party or parties shall be entitled, but not required, to produce and take or deliver to their respective purchaser(s) each month the remaining available Gas.

Whenever more than one party wishes to take and/or market the share of Gas

owned by another party that is not taking or selling its proportionate share, then, in the absence of any other agreement between them, those parties wishing to take and/or market the Gas shall only be entitled to take such additional amount that is in direct proportion to what their percentage interest bears to the total interest of all parties desiring to take the additional Gas.

All parties hereto shall share in and own the liquid hydrocarbons recovered from such Gas by primary separation equipment in accordance with their respective interests and subject to the terms of the Unit Operating Agreement, whether or not such parties are actually taking and/or marketing Gas at such time.

B. Making Up Underproduction

Each Underproduced Party shall be credited with Gas in storage equal to its percentage share of the total volume of Gas produced under this Agreement, less that party's share of that portion of the Gas actually marketed or taken by such party and less that portion of Gas used in operations, vented, or lost.

Each Party shall make a reasonable, good faith effort to take its Full Share of current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. If the Unit Operator has an established Gas nomination procedure, then an Underproduced party may make up Gas consistent with the percentages listed below in this Article III (B), so long as it adheres to the Unit Operator's nomination procedure. If the Unit Operator has no nomination procedure in place and the Underproduced party has not taken Gas for one or more consecutive months immediately prior to the month in which it wishes to commence making up a share of its Underproduction, then the Underproduced party shall give at least thirty (30) days advance written notice to the Unit Operator prior to taking Gas.

Effective the first day of any calendar month following at least fifteen (15) days prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section III of this Agreement, a share of current production determined by multiplying twenty-five percent (25%) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than twenty-five percent (25%) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

C. Filing Monthly Statement of Gas Volumes Taken With Unit Operator

In the event Gas produced from the Unitized Formation is sold to two or more Gas purchasers, then, within thirty (30) days after the end of each calendar month, each party hereto shall supply, or cause to be supplied, a written statement of the volume and the BTU content of the Gas it took from the Unitized Formation and the identity of its Gas purchaser, if any, to the Unit Operator at the following address:

Phillips Petroleum Company

4001 Penbrook

Odessa, Texas 79762

The above address may be changed from time to time and notice of such change of address shall be deemed to be received when sent by certified

mail to each Working Interest Owner's last known mailing address. The Unit Operator shall maintain appropriate accounting on a monthly and cumulative basis of the quantities of Gas each party is entitled to take and/or market and the quantities of Gas actually taken and/or marketed by each of the parties. With respect to Gas purchased from or transported for more than one party by or through any pipeline connected to a Unit well, each party selling to or transporting through such pipeline shall furnish to the Unit Operator or cause the pipeline owner to furnish to the Unit Operator monthly volume statements showing the split of ownership through such pipeline's sales or pipeline inlet meter for each such well for each calendar month.

In the event Gas taken or sold from the Unitized Formation during any single production month results in an imbalance in the Gas production accounts of the parties hereto, or the accounts of the parties were previously not Balanced, then, within sixty (60) days after the end of each such calendar month, the Unit Operator shall furnish each party hereto a statement showing the then current status of the Overproduced and Underproduced accounts of all parties.

If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

To determine respective volumes of Gas taken by separate Gas pipelines connected to Unit wells, measurement of Gas for overproduction and underproduction shall be accomplished by use of sales meters and lease measurement equipment which shall be in accordance with American Gas Association requirements.

Each party to this Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing or administering the terms of this Agreement or as otherwise required by law.

D. Payment of Royalty and Production Taxes

At all times while Gas is produced from the Unitized Formation, unless otherwise required by any State or Federal law or regulations, each party shall pay, or cause to be paid, all royalty due and payable on its share of Gas production. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its Royalty Owners.

Each party taking Gas off the lease or delivering Gas to its Gas purchaser shall pay, or cause to be paid, all production and severance taxes due on all volumes of Gas it takes or sells to a Gas purchaser.

IV. Optional Cash Balancing in the Event of an Ownership Change

In the event an Overproduced party intends to sell, assign, exchange or otherwise transfer any of its interest in the Unitized Formation, it shall notify in writing, sent by certified mail, the other Working Interest Owners in the Unit of such fact within sixty (60) days prior to closing the transaction. Within thirty (30) days after receipt of the Overproduced party's notice of its intent to sell, assign, exchange or otherwise transfer its interest in the Unitized Formation, any Underproduced party may make a written demand upon the Overproduced party in question for cash settlement of the Underproduced party's share of the total Underproduction in the Unitized Formation, not to exceed the

Overproduced party's Gas imbalance. If more than one Underproduced party wishes to cash balance its Gas account, then each Underproduced party shall have the right to receive cash settlement of its proportionate share of the total volume of Gas Underproduced by those Underproduced parties seeking a cash settlement until the Gas accounts of all Underproduced parties in question are Balanced or the amount of the Overproduced party's Gas imbalance is Balanced, whichever occurs first. The Unit Operator shall immediately be notified of any demand for cash settlement made pursuant to this Article. After a cash settlement has been made, the Unit Operator shall be immediately notified and the Gas balance accounts of the parties shall be adjusted accordingly. Any cash settlement made pursuant to this Article shall be on the same basis as is set forth in Article V(B) below.

The provisions of this Article shall not be applicable in the event an Overproduced party has mortgaged its interest, or disposed of its interest by merger, reorganization, consolidation, or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary owns a majority of the voting stock of such company.

V. Final Cash Balancing
A. Gas Imbalance

If, at termination of the Unit, an imbalance in Gas production exists between the parties, then a cash settlement shall be made among the parties for the total volume of the Gas imbalance.

B. Distribution of Final Gas Balancing Statement and Settlement of Cash Imbalance

Within one hundred twenty (120) days after termination of the Unit, the Unit Operator shall provide a final accounting of the Gas imbalance to all parties hereto. As part of the final accounting process, the Unit Operator shall calculate the amount of Gas (based on volume and BTU content, but not on price, and calculated on a monthly basis) that each Overproduced party owes to each Underproduced party. If there is more than one Underproduced party, then the total volume of Gas overproduced shall be divided among all of the Underproduced parties in proportion to their percentage interest in said Gas and each Overproduced party shall calculate its cash payment to each Underproduced party based on either:

1. the volume of Gas remaining in the Overproduced party's Gas account immediately after the last cash settlement made with any party or parties hereto pursuant to the provisions of Article IV above, or
2. if there has been no prior cash settlement made pursuant to the provisions of Article IV above, then the actual proceeds received by the Overproduced party or parties for the Overproduced share of Gas.

Where applicable, the value of the Gas Overproduced shall be based on the Alternate Price established pursuant to Article I(B) above. Each Overproduced party shall make settlement directly to each Underproduced party.

Each Overproduced party shall cash settle with each Underproduced party within sixty (60) days after receipt from the Unit Operator of the statement showing the Overproduced party's volumetric and BTU content overproduction in the Unitized Formation. Payments made by an Overproduced party to an Underproduced party shall relieve the Overproduced party of liability to any other party for the sums actually paid. Unit Operator shall not be liable to any party for the failure of any Overproduced party to pay any amounts owed pursuant to the terms hereof.

In lieu of the cash settlement required by Section IV, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in-kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section IV. The making of an in-kind settlement offer under this Section will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

VI. Deductions from Cash Settlement

When preparing a cash settlement with any Underproduced party hereto, an Overproduced party may deduct actual costs incurred for the following items, but only to the extent they have not been previously deducted from a previous cash settlement; gathering and transportation charges, compression, dehydration and any applicable treating charges, production and severance taxes paid by, or on behalf of, such Overproduced party. Royalty payments may be deducted from such proceeds attributable to the overproduction only if actually paid to Royalty Owners by, or on behalf of, an Overproduced party, and then only to the extent the amount of royalty paid is not in excess of the Royalty Owners' entitled share of royalty.

VII. Miscellaneous

A. Term

This Agreement shall remain in effect until the Gas balance accounts between the parties are settled in full, and the two year audit period provided for in Article VII(E) below has ended. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

B. Intent of the Parties

Subject to the provisions of Article IV above, it is the intent of the parties to only cash balance the Gas imbalance of the parties hereto when the Unit is terminated.

C. Expenses

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations pursuant to the Unit Operating Agreement.

D. Interest

No interest shall be payable in any cash settlement made pursuant to the provisions of this Agreement except in the event an Overproduced party fails to remit payment to an Underproduced party within sixty (60) days after the Unit Operator has mailed notice to said Overproduced party that an Underproduced party wishes to cash balance pursuant to the provisions of Article IV or Article V(B) above. If payment is not made to the Underproduced party within said sixty (60) day period, interest shall accrue on the unpaid balance at a rate of one percent (1%) above the prime rate at Chase Manhattan Bank of New York City, New York, or any successor bank, or the maximum interest rate allowed by law in the jurisdiction where the Unit is located, whichever is the lesser percentage, from a date commencing sixty (60) days after the Unit Operator has mailed notice to the Overproduced party until payment is actually made by the Overproduced party.

E. Audits

Notwithstanding any provision to the contrary found in the Unit Operating Agreement or any other exhibit attached thereto, any party hereto shall have the right to audit the records of any other party hereto for the following length of time:

For any cash payment made pursuant to the provisions of this Agreement, each party hereto shall have the right for a period of two (2) years following the date of the final cash settlement to audit the records, related to price and volume of all Gas taken or sold, including BTU adjustments, of any other party hereto.

Each party hereto agrees to retain information on the volume of Gas taken or sold each month from the Unitized Formation, the BTU content of such Gas, and the price per MCF it received for such Gas for the period of time stated immediately above.

F. Well Tests

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its Gas purchaser up to one hundred percent of the entire well stream of any well producing from the Unitized Formation to meet a deliverability test required by its Gas purchaser, provided such tests are reasonable in light of overall industry standards.

G. Monies Subject to Refund

In any cash settlement made pursuant to the terms of this Agreement, that portion of the monies received by an Overproduced party which is subject to refund by order of the Federal Energy Regulatory Commission ("FERC") or any other governmental authority may be withheld by the Overproduced party until such prices are fully approved by the governmental agency in question, unless an Underproduced party furnishes a corporate undertaking acceptable to the Overproduced party or parties agreeing to hold the Overproduced party or parties harmless from financial loss due to the pending refund. If any refund is required by any governmental authority after a cash settlement has been made pursuant to the terms of this Agreement, each party hereto agrees to account for its respective share of such refund.

H. Sales to an Affiliate, Valuation of Stored Gas or Gas Used Off Lease

If an Overproduced party has sold Gas to an Affiliate, stored Gas or used Gas off lease, then for the purposes of Article IV and Article V of this Agreement, any Gas so sold, stored or used off lease shall be valued at the Alternate Price as such term is defined in Article I(B) of this Agreement.

I. Attorney Fees and Court Costs

The prevailing party in any lawsuit brought to enforce any provision of this Agreement shall be entitled to receive reimbursement from the losing party for all court costs and reasonable attorney fees incurred in connection with said lawsuit.

J. Governing Law

This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, rights, duties, and the interpretation or construction, shall be construed and enforced in accordance with the laws of the jurisdiction in which the Unit is located.

K. Overproduced Party Shall Notify Unit Operator That Payment Has Been Made

Within thirty (30) days after an Overproduced party has paid an Underproduced party for all or a portion of the value of the Overproduced party's overproduction pursuant to the provisions of Article IV or Article V(B) of this Agreement, the Overproduced party shall notify the Unit Operator in writing of the volume of Gas (expressed in MCF and the corresponding BTU content) covered by the payment and the party to whom such payment was made so the Unit Operator may maintain a current and accurate gas balancing statement for all parties.

EXHIBIT "H"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT COVERING THE VACUUM GLORIETA EAST UNIT, LEA COUNTY, NEW MEXICO, DATED SEPTEMBER 10, 1993 BY AND BETWEEN PHILLIPS PETROLEUM COMPANY, AS UNIT OPERATOR AND NON-OPERATORS NAMED THEREIN.

WELLBORE CONTRIBUTIONS AND DEMAND WELL LOCATIONS

Tract No.	Pre – Unitization Operator	Former Lease Name	Well Number	Location U–Sec–Tn–Rq	Glorieta Unit Contribution Wellbore	Current Glorieta Completion Status	I (Pending) Demand Well Assessment	II Demand Well Assessment
19	ARCO	State B1576	5	N 32 17S 35E	Yes	Pumping	\$80,000	\$0
19	ARCO	State B1576	6	K 32 17S 35E	Yes	Pumping	\$80,000	\$0
19	ARCO	State B1576	7	L 32 17S 35E	Yes	Pumping	\$80,000	\$0
19	ARCO	State B1576	8	M 32 17S 35E	Yes	Pumping	\$80,000	\$0
20	ARCO	State B1578	3	F 30 17S 35E	Yes	Dual Compl	\$80,000	\$0
45	ARCO	State L DE	2	G 30 17S 35E	Yes	Pumping	\$80,000	\$0
ARCO Totals >>>>>>				Useable	6		\$480,000	\$0
				Non–useable	0			
25	Chevron	State 3 32	5	F 32 17S 35E	Yes	Pumping	\$80,000	\$0
25	Chevron	State 3 32	6	E 32 17S 35E	Yes	Pumping	\$80,000	\$0
25	Chevron	State 3 32	7	C 32 17S 35E	Yes	Pumping	\$80,000	\$0
25	Chevron	State 3 32	8	D 32 17S 35E	Yes	Pumping	\$80,000	\$0
27	Chevron	State 4 27	5	O 27 17S 35E	Yes	Pumping	\$80,000	\$0
27	Chevron	State 4 27	6, 9	J 27 17S 35E	Yes (6)	Shut–In (6) Aband. (9)	\$80,000	\$0
27	Chevron	State 4 27	7	K 27 17S 35E	Yes	Pumping	\$80,000	\$0
27	Chevron	State 4 27	10	L 27 17S 35E	Yes	Pumping	\$80,000	\$0
26	Chevron	State 5 27	5	F 27 17S 35E	Yes	Shut–In	\$80,000	\$0
26	Chevron	State 5 27	6	E 27 17S 35E	Yes	Pumping	\$80,000	\$0
26	Chevron	State 5 27	7	C 27 17S 35E	Yes	Pumping	\$80,000	\$0
26	Chevron	State 5 27	8	D 27 17S 35E	Yes	Shut–In	\$80,000	\$0
28	Chevron	State 6 34	11	L 34 17S 35E	Yes	Shut–In	\$68,000	\$0
Chevron Totals >>>>>>				Useable	13		\$1,028,000	\$0
				Non–useable	0			
01	Exxon	New Mexico K State	19	P 28 17S 35E	Yes	CIBP @ 5950'	\$80,000	\$0
01	Exxon	New Mexico K State	21, 35	O 28 17S 35E	Yes (21,35)	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	23	I 28 17S 35E	Yes	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	25	J 28 17S 35E	Yes	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	27	N 28 17S 35E	Yes	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	29	K 28 17S 35E	Yes	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	31, 34	L 28 17S 35E	Yes (31,34)	Pumping	\$80,000	\$0
01	Exxon	New Mexico K State	32, 36	M 28 17S 35E	Yes (36)	Pmpg (36) Abndnd (32)	\$80,000	\$0
02	Exxon	New Mexico K State	17	P 32 17S 35E	Yes	CIBP @ 5990'	\$80,000	\$0
02	Exxon	New Mexico K State	18	I 32 17S 35E	Yes	Pumping	\$80,000	\$0
02	Exxon	New Mexico K State	20	O 32 17S 35E	Yes	Pumping	\$80,000	\$0
02	Exxon	New Mexico K State	22	J 32 17S 35E	No	Abandoned		\$80,000
02	Exxon	New Mexico K State	24	H 32 17S 35E	Yes	Pumping	\$80,000	\$0
02	Exxon	New Mexico K State	26	G 32 17S 35E	Yes	Pumping	\$80,000	\$0
02	Exxon	New Mexico K State	28	A 32 17S 35E	Yes	Pumping	\$80,000	\$0
02	Exxon	New Mexico K State	30	B 32 17S 35E	Yes	Pumping	\$80,000	\$0
Exxon Totals >>>>>>				Useable	17		\$1,200,000	\$80,000
				Non–useable	1			
34	Marathon	Staplin State AC 1	3	N 30 17S 35E	Yes	Pumping	\$80,000	\$0
34	Marathon	Staplin State AC 1	4	K 30 17S 35E	Yes	Shut–In	\$80,000	\$0
23	Marathon	Warn State AC 1	4	K 31 17S 35E	Yes	Shut–In	\$80,000	\$0
23	Marathon	Warn State AC 1	5	F 31 17S 35E	Yes	Shut–In	\$80,000	\$0
24	Marathon	Warn State AC 3	5, 8, 9	H 33 17S 35E	Yes (8, 9)	Shut–In(8,9) Aband. (5)	\$80,000	\$0
24	Marathon	Warn State AC 3	6	G 33 17S 35E	Yes	Pumping	\$80,000	\$0
24	Marathon	Warn State AC 3	7	F 33 17S 35E	Yes	Pumping	\$80,000	\$0
Marathon Totals >>>>>>				Useable	8		\$560,000	\$0
				Non–useable	0			

EXHIBIT "H"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT COVERING THE VACUUM GLORIETA EAST UNIT,
LEA COUNTY, NEW MEXICO, DATED SEPTEMBER 10, 1993 BY AND BETWEEN PHILLIPS PETROLEUM COMPANY, AS UNIT
OPERATOR AND NON-OPERATORS NAMED THEREIN.

WELLBORE CONTRIBUTIONS AND DEMAND WELL LOCATIONS

Tract No.	Pre – Unitization Operator	Former Lease Name	Well Number	Location U-Sec-Tn-Rg	Glorieta Unit Contrubution Wellbore	Current Glorieta Completion Status	I (Pending) Demand Well Assessment	II Demand Well Assessment
11	Oxy	State K	5	H 27 17S 35E	No	Abandoned		\$80,000
11	Oxy	State K	6	G 27 17S 35E	Yes	PB to Yates	\$80,000	\$0
11	Oxy	State K	7	A 27 17S 35E	Yes	PB to Yates	\$80,000	\$0
11	Oxy	State K	8	B 27 17S 35E	Yes	Pumping	\$80,000	\$0
Oxy Totals		>>>>>>		Useable Non-useable	3 1		\$240,000	\$80,000
17	Phillips	State K	7	I 31 17S 35E	Yes	Pumping	\$80,000	\$0
17	Phillips	State K	8	P 31 17S 35E	Yes	Pumping	\$80,000	\$0
17	Phillips	State K	9	J 31 17S 35E	Yes	Shut-In	\$80,000	\$0
35	Phillips	State M	13	D 34 17S 35E	Yes	Pumping	\$80,000	\$0
35	Phillips	State M	14	C 34 17S 35E	Yes	Shut-In	\$80,000	\$0
35	Phillips	State M	15	E 34 17S 35E	Yes	Pumping	\$80,000	\$0
44	Phillips	State O	2	L 33 17S 35E	Yes	Shut-In	\$80,000	\$0
16	Phillips	Santa Fe	98	C 5 18S 35E	No	Abandoned		\$80,000
16	Phillips	Santa Fe	99	D 5 18S 35E	Yes	Shut-In	\$80,000	\$0
16	Phillips	Santa Fe	112	E 5 18S 35E	No	Abandoned		\$80,000
31	Phillips	Santa Fe	119	A 5 18S 35E	No	Abandoned		\$67,000
31	Phillips	Santa Fe	123	B 5 18S 35E	No	Abandoned		\$80,000
13	Phillips	Santa Fe	86	C 26 17S 35E	No	Abandoned		\$56,000
13	Phillips	Santa Fe	89	E 26 17S 35E	Yes	Shut-In	\$80,000	\$0
13	Phillips	Santa Fe	94	D 26 17S 35E	Yes	Pumping	\$80,000	\$0
21	Phillips	Santa Fe	110	L 26 17S 35E	No	Abandoned		\$80,000
12	Phillips	Santa Fe	80, 117	N 27 17S 35E	Yes (117)	Pmpg (117) Aband. (80)	\$80,000	\$0
12	Phillips	Santa Fe	90	M 27 17S 35E	Yes	Pumping	\$80,000	\$0
33	Phillips	Santa Fe	108	A 28 17S 35E	Yes	Pumping	\$80,000	\$0
40	Phillips	Santa Fe	104	F 28 17S 35E	Yes	Pumping	\$80,000	\$0
41	Phillips	Santa Fe	105	E 28 17S 35E	Yes	Pumping	\$80,000	\$0
41	Phillips	Santa Fe	107	C 28 17S 35E	No	Abandoned		\$80,000
14	Phillips	Santa Fe	109	G 29 17S 35E	Yes	Shut-In	\$80,000	\$0
29	Phillips	Santa Fe	103	K 29 17S 35E	Yes	Pumping	\$80,000	\$0
32	Phillips	Santa Fe	106	H 29 17S 35E	Yes	Pumping	\$80,000	\$0
15	Phillips	Santa Fe	100	O 30 17S 35E	Yes	Pumping	\$80,000	\$0
15	Phillips	Santa Fe	101	J 30 17S 35E	Yes	Pumping	\$80,000	\$0
30	Phillips	Santa Fe	102	O 31 17S 35E	Yes	Pumping	\$80,000	\$0
22	Phillips	Santa Fe	91	A 33 17S 35E	Yes	Pumping	\$80,000	\$0
22	Phillips	Santa Fe	95, 132	B 33 17S 35E	Yes (95,132)	Pumping	\$80,000	\$0
42	Phillips	Santa Fe	96, 131	E 33 17S 35E	Yes (96,131)	Pumping	\$80,000	\$0
43	Phillips	Santa Fe	92	K 33 17S 35E	Yes	Pumping	\$80,000	\$0
Phillips Totals		>>>>>>		Useable Non-useable	27 7		\$2,000,000	\$523,000

EXHIBIT "H"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT COVERING THE VACUUM GLORIETA EAST UNIT, LEA COUNTY, NEW MEXICO, DATED SEPTEMBER 10, 1993 BY AND BETWEEN PHILLIPS PETROLEUM COMPANY, AS UNIT OPERATOR AND NON-OPERATORS NAMED THEREIN.

WELLBORE CONTRIBUTIONS AND DEMAND WELL LOCATIONS

Tract No.	Pre – Unitization Operator	Former Lease Name	Well Number	Location U-Sec-Tn-Rq	Glorieta Unit Contribution Wellbore	Current Glorieta Completion Status	I (Pending) Demand Well Assessment	II Demand Well Assessment
37	Shell	State A	5	A 31 17S 35E	Yes	CIBP @ 5938'	\$80,000	\$0
37	Shell	State A	6	G 31 17S 35E	Yes	Pumping	\$80,000	\$0
37	Shell	State A	7	B 31 17S 35E	Yes	Pumping	\$80,000	\$0
37	Shell	State A	8	H 31 17S 35E	Yes	Pumping	\$80,000	\$0
09	Shell	State B	3	I 30 17S 35E	Yes	Pumping	\$80,000	\$0
09	Shell	State B	4	P 30 17S 35E	Yes	Pumping	\$80,000	\$0
08	Shell	State E	2	N 31 17S 35E	Yes	Pumping	\$80,000	\$0
38	Shell	State F	3	M 29 17S 35E	Yes	Pumping	\$80,000	\$0
38	Shell	State F	4	N 29 17S 35E	Yes	Pumping	\$80,000	\$0
36	Shell	State H	2	L 29 17S 35E	Yes	Pumping	\$80,000	\$0
39	Shell	State I	2	E 29 17S 35E	No	Pumping 3-1/2" Liner		\$40,000
05	Shell	State M	1	J 29 17S 35E	Yes	Pumping	\$80,000	\$0
05	Shell	State M	2	O 29 17S 35E	Yes	Pumping	\$80,000	\$0
05	Shell	State M	3	I 29 17S 35E	Yes	Pumping	\$80,000	\$0
05	Shell	State M	4	P 29 17S 35E	Yes	Pumping	\$80,000	\$0
10	Shell	State N	4	G 28 17S 35E	Yes	Shut-In	\$80,000	\$0
10	Shell	State N	5	H 28 17S 35E	Yes	Pumping	\$80,000	\$0
10	Shell	State N	6	B 28 17S 35E	Yes	CIBP @ 6050'	\$80,000	\$0
07	Shell	State V	5	I 27 17S 35E	Yes	CIBP @ 6050'	\$80,000	\$0
07	Shell	State V	6	P 27 17S 35E	No	Abandoned		\$80,000
06	Shell	State T	9	I 33 17S 35E	Yes	CIBP @ 5990'	\$80,000	\$0
06	Shell	State T	10	J 33 17S 35E	Yes	Pumping	\$80,000	\$0
Shell Totals >>>>>>				Useable	20		\$1,600,000	\$120,000
				Non-useable	2			
18	Texaco	State BC	3	M 33 17S 35E	No	Abandoned		\$78,000
46	Texaco	State CG NCT 2	1	F 29 17S 35E	No	Shut-In 2-7/8" Completion		\$80,000
47	Texaco	State CG NCT 1	2	H 30 17S 35E	No	Shut-In 2-7/8" Completion		\$80,000
03	Texaco	Skelly J State	2	C 31 17S 35E	Yes	Shut-In	\$80,000	\$0
04	Texaco	Skelly P State	3	C 33 17S 35E	Yes	Pumping	\$80,000	\$0
04	Texaco	Skelly P State	4	D 33 17S 35E	Yes	Pumping	\$80,000	\$0
Texaco Totals >>>>>>				Useable	3		\$240,000	\$238,000
				Non-useable	3			
VACUUM GLORIETA EAST UNIT TOTALS >>>>>>				Useable	97		\$7,348,000	\$1,041,000
				Non-useable	14			

EXHIBIT "I"

Attached to and made a part of that certain
Vacuum Glorieta East Unit Operating Agreement
Dated September 10, 1993,
Between Phillips Petroleum Company as Unit Operator and
Arco Oil and Gas Company, et al as Working Interest Owners

**MEMORANDUM OF UNIT OPERATING AGREEMENT AND
NOTICE OF LIEN AND MORTGAGE - FINANCING STATEMENT**

STATE OF NEW MEXICO §

COUNTY OF LEA §

Phillips Petroleum Company ("Unit Operator") and the undersigned Arco Oil and Gas Company, et al ("Working Interest Owners") have entered into a Unit Operating Agreement ("Agreement") providing for the development and production of crude oil, natural gas and associated substances, dated _____, 19 93, covering the following described lands:

Township 17 South, Range 35 East, NMPM

Section 26: N/2 NW/4, SW/4 NW/4, NW/4 SW/4
Section 27: All
Section 28: S/2, NE/4, S/2 NW/4, NE/4 NW/4
Section 29: S/2, S/2 N/2
Section 30: SE/4, S/2 NE/4, SE/4 NW/4, E/2 SW/4
Section 31: E/2, E/2 W/2
Section 32: All
Section 33: N/2 N/2 S/2, SW/4 SW/4
Section 34: N/2 NW/4, SW/4 NW/4, NW/4 SW/4

Township 18 South, Range 35 East, NMPM

Section 5: N/2 N/2, SW/4 NW/4
All lands being located in Lea County, New Mexico.

The Agreement provides for mutual liens and security interests to secure payment by the parties of their respective share of costs under the Agreement.

Without limiting or superseding the liens and security interests provided for in the Agreement and in order to further secure payment by Working Interest Owners of amounts due Unit Operator from time to time under the terms of the Agreement as its share of expense, Working Interest Owners have granted and do hereby grant to Unit Operator, its successors and assigns, the following:

1. A lien and mortgage covering all of Working Interest Owners' leasehold, unleased mineral or other working interest in and under the above-referenced lands which are of record as of the date hereof or hereafter acquired by Working Interest Owners.
2. A lien and mortgage covering, and a security interest in, the undivided portion of the equipment located on the above-referenced lands, including fixtures, which is employed in the production of oil and/or gas therefrom and is owned as of the date hereof or hereafter acquired by Working Interest Owners.
3. A security interest in Working Interest Owners' undivided portion of the oil and/or gas when extracted from the above-referenced lands and in the accounts arising from the sale by Working Interest Owners of such oil and gas, and in rights under the Gas Balancing Agreement.
4. A lien and security interest covering all contract rights, general intangibles, interests in partnerships or other associations, and any other interests arising from the development of the above described lands for oil and gas purposes.
5. A lien and security interest covering the proceeds of the sale of any of the collateral referenced in 1-4 above, together with a

**Memorandum of Unit Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
Page 2 of 3**

lien and security interest attaching to the collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to which a party may be entitled by reason of exercise of any lien or security rights hereunder.

In order to secure payment by Unit Operator from time to time of its share of expense under the above-referenced Agreement, Unit Operator has granted and does hereby grant to Working Interest Owners and the other parties to said Agreement who execute this instrument a lien and mortgage and a security interest of the same nature and effect as those described in the preceding paragraph.

The minerals or the like (including oil and gas) or accounts described in the preceding paragraphs will be financed at the wellhead or wellheads located on the lands described above. This instrument shall be filed for record in the real estate records of the county named in the land description shown above. The secured party is not a seller or purchase moneylender of the collateral described in items 1-5 above.

Furthermore, this Memorandum of Unit Operating Agreement and Notice of Lien and Mortgage - Financing Statement incorporates by reference all other terms and conditions of said Agreement. Said Agreement specifically provides as follows:

1. The take over of personal property, inventory, evaluation, adjustments and shared ownership by the Working Interest Owners. A demand well provision with Drilling Pool Provision. An Environmental Assessment and Indemnity Provision. A multiple phase Unit Participation. A Gas Balancing Agreement.
2. Each Working Interest Owner has the right to take-in-kind pursuant to the Vacuum Glorieta East Unit Agreement as referenced in the Agreement.
3. That the liability of the parties to the agreement is several, and not joint and collective, with each party being liable only for its proportionate share of costs of developing and operating the contract area.

In the event the description of the land covered by the above-referenced Agreement is revised in any manner by the parties thereto, then each party to said Agreement is authorized to execute and file for record an appropriate amendment to this instrument setting forth the revised land description and stating that the same terms and provisions contained in this instrument shall apply to such revised land description. Said amendment need not be executed by more than one party to said Agreement. The party which executes and files of record same amendment shall promptly mail to all other parties to said Agreement a copy of said amendment showing the recording reference.

Should any person or firm desire additional information regarding the Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to: Phillips Petroleum Company, 4001 Penbrook, Odessa, Texas, 79762, Attention: Land Department.

Each party to said Agreement may execute as a Working Interest Owners a counterpart of this instrument which contains a signature page for such party. Unit Operator may combine the signature pages executed by such parties with the first two pages identical to the first two pages hereof and file and/or record such aggregated instrument.

EXECUTED AS OF THIS _____ DAY OF _____, 19 ____.

_____, Unit Operator

Date: _____

By: _____

Memorandum of Unit Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
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STATE OF §
 §
COUNTY OF §

The foregoing instrument was acknowledged before me this _____ day of _____, 19 ____, by _____ as
Attorney-in-Fact for an on behalf of _____ a
_____.

Witness my hand and official seal the day and year last above written.

My commission expires: _____
Notary Public