

PLAN OF UNITIZATION

QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT

LEA COUNTY, NEW MEXICO

10959-10960

OIL COMMISSION DIVISION

CASE NO. 10959+10960

UNIT AGREEMENT  
QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT  
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UNIT AGREEMENT  
FOR THE QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 10TH day of JANUARY, 1994, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

W I T N E S S E T H

WHEREAS, the parties hereto are the owners of working, royalty, or other Oil and Gas interests in the Unit Area subject to this Agreement; and

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

WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation

provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

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

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the Unit Area, and agree severally among themselves as follows:

#### ARTICLE 1

- 1.1 Enabling Act and Regulations. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement.

ARTICLE 2  
DEFINITIONS

As used in this Unit Agreement, the terms herein shall have the following meaning:

- 2.1 Unit Area means the lands described by Tracts in Exhibit "B" and shown on Exhibit "A" as to which this Agreement becomes effective or to which it may be reduced or expanded as herein provided;
- 2.2 Oil and Gas means crude oil, natural gas, casinghead gas, condensate or any combination thereof;
- 2.3 Pool means an underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure, which zone is completely separate from any other zone in the structure, is covered by the word pool as used herein. Pool is synonymous with "common source of supply" and with "common reservoir";
- 2.4 Royalty Interest means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest;
- 2.5 Royalty Owner means a person who owns a Royalty Interest;
- 2.6 Unit Operator means the Working Interest Owner, designated by Working Interest Owners under the Unit Operating Agreement or the Division to conduct Unit Operations, acting as Unit Operator and not as a Working Interest Owner;
- 2.7 Waste in addition to its meaning in Section 70-2-3 NMSA

- 1978, shall include both economic and physical waste resulting, or that could reasonably be expected to result, from the separate development and operation of tracts that can best be developed and operated as a Unit;
- 2.8 Working Interest means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, including a carried interest, the owner of which is primarily obligated to pay, either in cash or out of production or otherwise, a portion of the Unit Expense; however, oil and gas rights that are free of lease or other instrument creating a Working Interest shall be regarded as a Working Interest to the extent of seven-eighths thereof and a Royalty Interest to the extent of the remaining one-eighth thereof;
- 2.9 Working Interest Owner means a person who owns a Working Interest;
- 2.10 Unit means the Querecho Plains Queen Associated Sand Unit, Lea County, New Mexico;
- 2.11 Unitized Formation means that common source of supply of Oil and Gas underlying the Unit Area, and commonly known as the Queen/Penrose Sand, which is described as that certain stratigraphic interval, or its correlative equivalent, encountered between the log depths of 3,886 feet and 4,222 feet in the Mewbourne Oil Company - Federal E No. 7 located in the center NENE (Proration Unit A) of Section 27, Township 18 South, Range 32 East, Lea County, New Mexico as shown on the Welex -



Compensated Acoustic Velocity Log, dated July 15, 1983, and attached hereto as Exhibit "D";

- 2.12 Unitized Substances means all Oil and Gas within or produced from the Unitized Formation, except Oil and Gas designated as Outside Substances;
- 2.13 Operating Committee is a committee formed for supervision of Unit Operations, and consists of a representative of each Working Interest Owner;
- 2.14 Tract is the land identified as such and given a tract number in Exhibit "B";
- 2.15 Unit Operating Agreement is the agreement having the same effective date as this Agreement, entitled "Unit Operating Agreement" and which, with this Agreement, constitutes the Unit Agreement;
- 2.16 Tract Participation means the percentage so described on Exhibit "C" for each Tract under this Unit Agreement;
- 2.17 Unit Participation of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract;
- 2.18 Surface Acres means the surface parcels of land overlying the Querecho Plains Queen Associated Pool which are dedicated to this unit. Each well proration unit is deemed to consist of approximately 40 contiguous acres substantially in the form of a square.
- 2.19 Ultimate Primary Oil Reserves means oil measured in stock tank U.S. 42 gallon barrels that would have been produced

from the Unitized Formation by each well, tract, or the Unit had no secondary recovery effort been made.

2.20 Outside Substances means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation;

2.21 Oil and Gas Rights means the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof;

2.22 Unit Operations means all operations conducted by the Unit or Unit Operator pursuant to this Unit Agreement for or on account of the development and operation of the Unitized Formation including the implementation and operation of secondary recovery techniques for the production of Unitized Substances;

2.23 Unit Equipment means all personal property, lease and well equipment, plants and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations;

2.24 Unit Expense means all cost, expense or indebtedness incurred by the Working Interest Owners or Unit Operator pursuant to this Unit Agreement and the Unit Operating Agreement for or on account of Unit Operations;

2.25 Unit Operating Expense means all cost, expense or indebtedness, other than a Capital Expenditure, incurred by the Working Interest Owners or Unit Operator pursuant to this Unit Agreement and the Unit Operating Agreement

for or on account of Unit Operations, including but not limited to, normal or recurring daily, and other periodic, operations and maintenance of Unit Wells and Equipment, and the cost of processing oil and gas therefrom;

2.26 Capital Expenditure means any single cost, expense or indebtedness in excess of fifty thousand dollars (\$50,000.00) requiring formal approval of the Operating Committee including but not limited to: Design, construction, implementation of Secondary recovery techniques, drilling, completion, reworking, or plugging back any well, including necessary flowlines, separators, and lease tankage; converting of any well to an injection well, including necessary injection lines and control devices; and providing any lease equipment;

2.27 Effective Date means the time and date this agreement becomes effective as provided in Article 19;

2.28 Person means any individual, corporation, partnership, common law or statutory trust, association of any kind, the United States of America, or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind, or any entity capable of holding an interest in the Unitized Formation;

2.29 Singular and Plural Gender Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter

gender includes the masculine and the feminine;

- 2.30 Authorized Officer or A.O. is any employee of the Bureau of Land Management (BLM) who has been delegated the required authority to act on behalf of the BLM;
- 2.31 Division is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.
- 2.32 Department is defined as the Department of the Interior of the United States of America;
- 2.33 Proper BLM Office is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

### ARTICLE 3

#### EXHIBITS

- 3.1 Exhibits. The following exhibits, which are attached hereto, are incorporated herein by reference:
- 3.1.1. Exhibit "A" is a map that shows the boundary lines of the Unit area and the Tracts therein;
- 3.1.2. Exhibit "B" is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage and kind of ownership of Oil and Gas interests in all land in the Unit Area;
- 3.1.3. Exhibit "C" is a schedule showing the percentage of participation credited to each Tract in the Unit Area based upon a presumed

one hundred percent (100%) commitment;

3.1.4. Exhibit "D" is a portion of The Welex - Compensated Acoustic Velocity Log dated July 15, 1983, for the Mewbourne Oil Company Federal E No. 7 well;

3.1.5. Reference to Exhibits. When reference is made to an Exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

3.2 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse Royalty Interest or Working Interest ownership on the Effective Date hereof, should have been divided into more than one Tract, or that any miscalculation or clerical error has been made in the preparation of Exhibits or information shown thereon, Unit Operator, with the approval of the Operating Committee and with approval of 75% of the Working Interest Owners, may correct the mistake by revising the Exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing of the revised exhibit with the A.O. and the Proper BLM office, or on such other date as may

be determined by the Operating Committee and set forth in the revised exhibit. Royalty Owners shall be advised in writing of any such corrections by the Unit Operator.

#### ARTICLE 4

#### EXPANSION

4.1 Expansion. The above described Unit Area may, with the approval of the A.O. when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Article 9.2 the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

4.1.1. Expansion Application. The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this Unit, shall file an application therefore with Unit Operator requesting such admission;

4.1.2. Unit Operator Notice of Expansion Application. Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract

proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

4.1.2.a. Notice of Proposed Expansion. After obtaining preliminary concurrence by the A.O. prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed beginning date thereof; and

4.1.2.b. Delivery of Notice of Proposed Expansion. Deliver copies of said notice to the A.O. at the Proper BLM Office, each Working Interest Owner and to the last known address of

each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

4.1.2.c. Filing of Notice of Proposed Expansion. File, upon the expiration of said thirty (30) day period as set out in 4.1.2.b immediately above with the A.O. the following: (1) evidence of mailing or delivering copies of said notice of expansion; (2) an application for approval of such expansion; (3) an instrument containing the appropriate joinders; and (4) a copy of all objections received along with the Unit Operator's response thereto.

4.1.3. Effective Date of Expansion. The expansion shall, after due consideration of all pertinent information and approval by the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract



Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

## ARTICLE 5

### CREATION AND EFFECT OF UNIT

- 5.1 Oil and Gas Rights Unitized. All Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit "B" and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formation, so that Unit Operations may be conducted with respect to the Unitized Formation as if the Unit Area had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease contained all of the provisions of this agreement;
- 5.2 Personal Property Excepted. Except for equipment designated as Unit Equipment by the Working Interest Owners pursuant to the Unit Operating Agreement, all lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by Working Interest Owners. The rights and interests therein as among Working Interest Owners are set forth in the Unit Operating Agreement;

5.3 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this agreement, but otherwise shall remain in effect.

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

5.4 Continuation of Leases and Term Interests. Production from any part of the Unitized Formation or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations shall continue in effect each lease or term mineral or royalty interest as to all lands and

formations covered thereby just as if such operations were conducted on and as if a well were producing from each Tract;

5.5 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to Oil and Gas Rights by any party hereto to any other party or to Unit Operator;

5.6 Injection Rights. Royalty Owners hereby grant to the Unit Operator the right to inject into the Unitized Formation and/or in the remainder of the Querecho Plains Queen Associated Sand Unit, if any, any substances in whatever amounts the Unit Operator deems expedient for Unit Operations, together with the right to drill, use, and maintain injection wells on the Unit Area, and to use for injection purposes any non-producing or abandoned wells or dry holes, and any producing wells completed in the Unitized Formation;

5.7 Development Obligation. Nothing herein shall relieve Working Interest Owners from any obligation to develop reasonably as a whole the lands and leases committed hereto;

5.8 Ratification and Extension of Leases and Units. Each Royalty Owner acknowledges the validity of and confirms all of the terms and provisions of each lease, and each prior pooling document affecting such lease, covering land in whole or in part within the Unit Area under which said Royalty Owner owns a Royalty Interest, as to all

minerals in and under all land covered thereby, and it is expressly agreed and understood that each such lease is now in full force and effect and shall, as to all of said minerals, continue in force and effect from the date of execution hereof by each such Royalty Owner until the Effective Date and thereafter in accordance with the respective terms and provisions of each lease and of this Agreement. Each Royalty Owner does hereby adopt, ratify, and confirm each lease covering land in whole or in part within the Unit Area under which said Royalty Owner owns a Royalty Interest, as to all minerals in and under all land covered thereby.

- 5.9 Cooperative Agreements. In the interest of conservation, protect the correlative rights of the parties, and as a prudent means to increase the recovery of Unitized Substances, the Operating Committee may authorize and empower the Unit Operator to execute agreements with the operators, owners of Working Interests, or unleased Mineral Interest Owners in adjacent lands outside the Unit Area for cooperative development, operation, fluid injection or similar programs with respect to the equivalent of the Unitized Formation outside the Unit Area and the Unitized Formation. Any such agreement may make provision for the drilling or conversion, equipping and operation of compensating fluid injection wells in the Unitized Formation and the adjoining equivalent of the Unitized Formation outside the Unit Area. The rate

of fluid injection into such wells inside the Unit Area shall be approximately equal to the rate of injection into such wells outside the Unit Area. Any such cooperative agreement shall in no way affect or alter the percentages of participation established hereunder as to the parties hereto, nor shall the same provide for the sharing or allocation of production as between the Unit Area, as herein defined, and any outside lands.

5.10 Use of Surface and Use of Water. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unit Area as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unit Area that result from Unit Operations, and such payments shall be considered as items of Unit Expense to be borne by all the Working Interest Owners of lands subject hereto.

## ARTICLE 6

### PLAN OF OPERATION AND RIGHTS OF UNIT OPERATOR

- 6.1 Unit Operator. Mewbourne Oil Company is hereby designated as the initial Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations, which shall conform to the provisions of this Unit Agreement, and the Unit Operating Agreement. If there is any conflict between such agreements, this Unit Agreement shall govern;
- 6.2 Plan of Operation. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement has been reasonably defined by development of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent Waste and conserve natural resources. Unit Operator, under direction of the Operating Committee, shall have the right to inject any substance into the Unitized Formation for secondary recovery or enhanced recovery purposes, including the right to drill and maintain injection wells on the Unit Area and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose.

The initial Plan of Operation shall be filed with the A.O. and the Division concurrently with the filing of this Unit Agreement. Any subsequent revisions of the

Plan of Operations shall be filed with the A.O. and the Division in like manner. After operations are commenced under a Plan of Operations, reasonable diligence shall be exercised by the Unit Operator in complying with said Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the Effective Date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

6.3 Change of Operating Methods. Nothing herein shall prevent the Operating Committee from discontinuing or changing in whole or in part any method of operation which, in its sole opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by the Operating Committee from time to time if determined by it to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances. Such changes in the Plan of Operation will be filed with the A.O. and the Division.

6.4 Rights of Unit Operator. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are

necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence to title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

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



## ARTICLE 7

### ALLOCATION OF UNITIZED SUBSTANCES AND TRACT PARTICIPATION

7.1 Tract Participation. In Exhibit "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "C" was determined in accordance with the following formula:

$$\text{Tract Participation} = 95\% \text{ A/B} + 5\% \text{ C/D}$$

A = the Tract Ultimate Primary Oil Reserves from the Unitized Formation

B = the Unit Total Ultimate Primary Oil Reserves from the Unitized Formation

C = the Tract Surface Acres

D = the Unit Total Surface Acres

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

7.3 Allocation to Tracts. All Unitized Substances that are produced except that used in Unit Operations or unavoidably lost, shall be allocated to the several Tracts in accordance with the respective Tract Participations. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the

well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract;

7.4 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the Persons entitled to share in the production from such Tract in the same manner, in the same proportions and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Unit Agreement not been adopted, and with the same legal effect;

7.5 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Persons entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such Owners. Such Persons shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving Person. If a Royalty Owner has the right to take in kind a share of the Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Owner shall be entitled to take in kind such share of the Unitized Substances;

7.6 Failure to Take in Kind. If any Person fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, but not the duty, for the time being and subject to revocation at will by the Person owning the share, to purchase for its own account or sell to others such share at no less than the lowest posted price prevailing in the area, which shall in no event be less than the price which Unit Operator receives for its portion of the oil or gas produced from the Unit Area; provided that all contracts of sale by Unit Operator of any other Person's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substance so disposed of by Unit Operator shall be paid to the Person entitled thereto;

7.7 Royalty Settlement. The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement

for Royalty not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease. Any royalty or other payment which varies, under the terms of the instrument creating it, according to actual production from a Tract or according to the actual production of the well or wells located thereon, shall on and after the Effective Date hereof be computed upon that portion of the Unitized Substances allocated to the particular Tract or well or wells thereon and not upon the actual production of Oil and Gas from the Tract or the actual production of the well or wells located thereon.

If the amount of production or the proceeds thereof

accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the Effective Date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

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

- 7.8 Rental Settlement. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefore under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the United

States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the secretary or his duly authorized representative.

## ARTICLE 8

### USE OR LOSS OF UNITIZED SUBSTANCES

- 8.1 Use of Unitized Substances. Working Interest Owners may use or consume Unitized Substances for Unit Operations, including but not limited to the injection thereof into the Unitized Formation;
- 8.2 Royalty Payments. No royalty, overriding royalty, production, or other payments shall be payable upon, or with respect to, Unitized Substances used or consumed in Unit Operations including but not limited to Unitized Substances injected into the Unitized Formation, or which otherwise may be lost or consumed in the production, handling, treating, transportation, or storing of Unitized Substances.

## ARTICLE 9

### APPROVAL OF UNIT AREA

- 9.1 Tract Inclusion and Participation. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts

more particularly described in Exhibit "B"; provided, however, the inclusion of such Tracts in the Unit Area shall not be effective until such inclusion has been approved in writing by the Working Interest Owners who will be required initially to pay at least 75% of the costs of Unit Operations and also by the Royalty Owners of at least 75% of the production or proceeds thereof that will be credited to interests which are free of costs such as royalties, overriding royalties and production payments.

9.2 Unitization of Unit Area. When the Persons owning the required percentage of interest in the Unit Area have approved the plan for Unit Operations and the Unit Area the interests of all persons in the Unit shall be treated as unitized whether or not such persons have approved the Plan of Unitization in writing.

9.3 Statutory Unitization. After the Unit Operator has received the approval of the plan for Unit Operation by the required percentage of interest in the Unit Area, and if such approval is by less than 100% of the Working Interest Owners and Royalty Owners, the Unit Operator shall proceed to obtain an order unitizing all interests of all Persons in the Unit Area pursuant to the Statutory Unitization Act of the State of New Mexico, Section 70-7-1, et seq. NMSA (1987 Repl.).

9.4. Commitment of Interests to Unit. The execution of this Agreement by a party shall commit all interests owned or

controlled by such party as of the date of execution, and additional interests acquired before the Effective Date. After the Effective Date, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest;

9.5. Revision of Exhibits. If any of the Tracts described in Exhibit "B" fail to qualify for inclusion in the Unit Area, Unit Operator shall recompute the Tract Participation of each of the qualifying Tracts, using the original basis of computation, and shall revise Exhibits "A" and "B" accordingly. Such revised exhibits shall be effective as of 7:00 a.m. on the Effective Date;

9.6. Acquisition of Uncommitted Interest. In the event at any time after the Effective Date hereof any party bound by this agreement acquires an uncommitted interest in any Tract included in the Unit Area, such interest upon being so acquired shall be subject to this Agreement; and where the interest acquired is a Working Interest, such interest shall also be subject to the Unit Operating Agreement.

## ARTICLE 10

### TITLES

10.1 Title Information. In the event of a questionable title, and upon request of the Operating Committee, the Working Interest Owners of a Tract with questionable title shall



furnish and make available to the Operating Committee, or the Unit Operator, an abstract brought to the date of the request, together with all other title information in the possession of such Working Interest Owners, affecting their title and that of their Royalty Owners to the Oil and Gas Rights in and to such Tract;

10.2 Warranty. Each Person who may claim to own a Working Interest in and to any Tract, Well or the Unitized Substances allocated thereto, shall be deemed to have warranted its title to such interest. Each person who may claim to own a Royalty Interest in and to any Tract, Well or the Unitized Substances allocated thereto, shall be deemed to have warranted its title to such interest to the extent, if at all, that such Person has already warranted its title to such interest in a pertinent and valid Oil and Gas Lease in effect on the Effective Date. Upon receipt of the Unitized Substances or the proceeds thereof, to the credit of such interest, each Person deemed to have warranted its title through the above provisions of this Article 10.2 shall indemnify and hold harmless all other Persons in interest from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed.

Each failure of title will be deemed to be effective, insofar as this Unit 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;

10.3 Unit Indemnification. The Operator will be held harmless and be indemnified by all parties hereto whether Royalty Owners or Working Interest Owners in any threatened, pending or completed action, suit or proceeding to which Unit Operator was or is a party or is threatened to be made a party by reason of the fact that it is or was the Unit Operator of the Unit. All parties hereto shall indemnify the Unit Operator against expenses, including attorney's fees, judgments and amounts paid in settlement actually and reasonably incurred by the Unit Operator in connection with such action, suit or proceeding, if the Unit Operator acted in good faith and in a manner the Unit Operator reasonably believed to be in or not opposed to the best interest of the Unit, and provided that the conduct of the Unit Operator does not constitute gross negligence, or willful or wanton misconduct. The termination of any action, suit or proceeding by judgment, order or settlement shall not, of itself create a presumption that the Unit Operator did not act in good faith and in a manner which they reasonably believed to

be in or not opposed to the best interests of the Unit.

The Unit Operator will be held harmless and be indemnified by the Unit in any threatened, pending or completed action or suit by or in the right of the Unit, to which the Unit Operator was or is a party or is threatened to be made a party. The Unit shall indemnify the Unit Operator against expenses, including attorneys' fees, actually and reasonably incurred by them in connection with the defense or settlement of such action or suit if the Unit Operator acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the Unit, except that no indemnification shall be made in respect of any claim, issue or matter as to which the Operator shall have been adjudged to be liable for gross negligence, willful or wanton misconduct, unless and only to the extent that the court in which such action or suit was brought shall determine upon application, that despite the adjudication of liability but in view of all circumstances of the case, the Unit Operator is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

To the extent that the Unit Operator has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in paragraph one or two of this Article, or in defense of any claim, issue or matter therein, the Unit shall indemnify it against

the expenses, including attorneys' fees, actually and reasonably incurred by it in connection therewith.

- 10.4 Production Where Title is in Dispute. If a dispute exists concerning the title or right of any Person claiming the right to receive in kind any portion of the Unitized Substances, or the proceeds thereof, allocated to a Tract, Unit Operator at the direction of the Operating Committee shall: (a) require that the Person to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security satisfactory to the Operating Committee for the proper accounting therefore to the rightful owner if the title or right of such Persons fail in whole or in part, or (b) market and withhold the proceeds of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof in an interest bearing account until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of the Operating Committee, whereupon the proceeds so impounded shall be paid to the Person rightfully entitled thereto. Any interest required to be paid on such withheld proceeds in excess of interest earned by Unit Operator shall be paid by the Working Interest Owner owning the interest in the Tract where title or right is in dispute;
- 10.5 Payment of Taxes to Protect Title. If any taxes are not paid when due by or for any owner of surface rights to

lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, Unit Operator may, with approval of the Operating Committee at any time prior to a tax sale, or prior to the expiration of a period of redemption after a tax sale, pay the tax and redeem or purchase such rights, interests, or property. Any such payment shall be an item of Unit Expense. Unit Operator shall withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the costs of such payment, such withholding to be credited to Working Interest Owners. Such withholding shall be without prejudice to any other remedy available to Unit Operator or any other person;

- 10.6 Transfer of Title. Any conveyance of all or any part of any interest owned by a Person with respect to any Tract shall be subject to this Agreement. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefore until the first day of the calendar month after said Working Interest Owner is furnished with the

original, or acceptable photostatic or certified copy, of the recorded instrument or transfer;

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

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

10.9 Covenants Run With Land. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest;

10.10 Waiver of Rights to Partition. Each Party hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the Unitized Formation or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

## ARTICLE 11

### INDIVIDUAL RELATIONSHIPS AND RIGHTS

- 11.1 No Partnership. The duties, obligations, and liabilities of the Parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided;
- 11.2 No Joint Refining or Marketing. This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances;
- 11.3 Specific Rights of Working Interest Owners. Each Working Interest Owner shall have, among others, the following specific rights:
- 11.3.1. Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto;
- 11.3.2. Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit

Operations; provided that, the cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owners who request the information;

- 11.4 Information to Royalty Owners. Each Royalty Owner shall be entitled to all data and records of the Unit upon fifteen (15) days notice, at the offices of the Unit Operator during normal business hours and at the Royalty Owners expense.

## ARTICLE 12

### ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

- 12.1 Accounting Provisions and Unit Operating Agreement. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying joint operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit



Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the A.O. at the Proper BLM Office as required prior to approval of this Agreement;

12.2 Taxes. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unit Area; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States.

## ARTICLE 13

### NONDISCRIMINATION

Unit Operator in connection with the performance of work under the Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

## ARTICLE 14

### NOTICES

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

## ARTICLE 15

### FORCE MAJEURE

All obligations arising hereunder, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by an event beyond the reasonable control of the Person, including, but not limited to, a labor dispute; fire; war; civil disturbance; act of God; Federal, state or municipal laws;

any rule, regulation, or order of a governmental agency; inability to secure materials; any other cause or causes, beyond the reasonable control of the Person, whether similar or dissimilar. No Person shall be required against his will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

#### ARTICLE 16

##### PRODUCTION AS OF THE EFFECTIVE DATE

Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable Oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date hereof. All such oil which has then been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the Unit had not been formed; and the responsible Working Interest Owner shall promptly remove said Oil from the Unit Area. Any such Oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof.

#### ARTICLE 17

##### JOINDER IN DUAL CAPACITY

Execution as herein provided by any party as either a Working

Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

ARTICLE 18  
COUNTERPARTS

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

ARTICLE 19  
EFFECTIVE DATE AND TERM

This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party. This Agreement shall become binding upon each Working Interest Owner or Royalty Interest Owner who has not executed or ratified this Agreement, but whose interest has been unitized pursuant to an order of the Division, as of the date of

said order. As to all parties or interest owners, this Agreement shall become effective as of 7:00 a.m. on the first day of the calendar month next following the approval of this Agreement by the Secretary of the Interior or his duly authorized representative.

The Unit Operator shall, within thirty (30) days after the effective date of this Agreement, record with the County Clerk of Lea County, New Mexico a copy of this Agreement, and a certificate to the effect that this Agreement has become effective according to its terms, and stating the Effective Date.

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

This Agreement may be terminated by a vote of two or more Working Interest Owners owning seventy-five percent (75%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico, within thirty (30) days of the termination becoming effective.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never

been entered into.

If any liability or obligation incurred prior to termination of the Unit shall accrue and become payable thereafter, the amount shall be borne and paid as Unit Expense in the same manner as if it had accrued prior to termination of the Unit at the time of its incurrence.

Notwithstanding any other provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations. Upon termination of this Agreement in the manner set out herein, the Royalty Owners agree to a ninety (90) day extension of their leases and contracts covering the lands which are committed to the Unit Area to permit the Working Interest Owners holding such lands to resume operation thereof and if so resumed, such lease or contract shall remain in force and effect in accordance with the provisions thereof.

## ARTICLE 20

### GENERAL

- 20.1 Amendments Affecting Working Interest Owners. Amendments hereto relating wholly to Working Interest Owners may be made if signed by seventy-five percent (75%) of the Working Interest Owners.
- 20.2 Action by Working Interest Owners. Except as otherwise provided in this Agreement, any action or approval

required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.3 Lien and Security Interest of Unit Operator. Unit Operator shall have a lien upon and a security interest in the interests of Working Interest Owners in the Unit Area as provided in the Unit Operating Agreement.

## ARTICLE 21

### GENERAL POWERS OF UNIT

The Unit is authorized for the account of all owners of Oil and Gas Rights within the Unit Area, without profit to the Unit, to supervise and conduct the further development and operation of the Unit Area for the production of Oil and Gas from the Unitized Formation, pursuant to the powers conferred and subject to the limitations imposed by the provisions of or any amendment thereof, and by this Unit Agreement. The Statutory Unit notwithstanding anything in Section 5 to the contrary, if this Agreement and the Unit Operating Agreement are duly approved by an order of the Division approving statutory unitization pursuant to N. Mex. Stat. Ann. Sections 70-7-1 et seq. (1987 Repl.), then all Tracts other than unleased Federal lands within the Unit Area shall be deemed to be qualified for participation on and after the Effective Date of this Agreement.

This Agreement shall be amended as necessary to conform with the Division order approving statutory unitization, provided such

amendments are approved by the Authorized Officer. Any and all amendments of the Unit Agreement or Unit Operating Agreement that are necessary to conform said Agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved by parties hereto without the necessity of any further approval by the parties.

## ARTICLE 22

### SUCCESSORS AND ASSIGNS

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

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

Attest by Secretary, with Corporate Seal, if a Corporation, or  
Witness, if an Individual

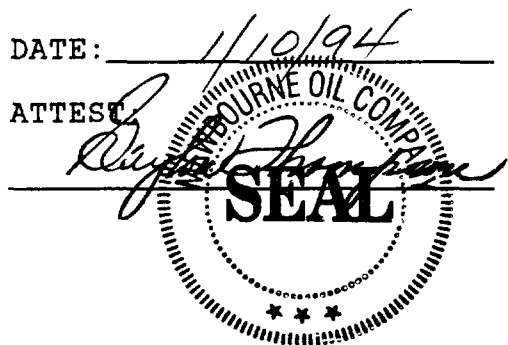
### UNIT OPERATOR

OPERATOR:

MEWBOURNE OIL COMPANY

DATE: 1/10/94

ATTEST



By: James Allen Benson



WORKING INTEREST OWNERS

DATE: \_\_\_\_\_

ANADARKO PETROLEUM CORPORATION

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ASSOCIATED PARTNERS LTD 1986

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CARROLL BELLAH

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

PHILIP R. BISHOP

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

LEWIS BURLESON

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

GENE FULMER

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

RAY FULMER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEBRA JOHNSON HEAD

ATTEST:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HILLSIDE SYNDICATE

ATTEST:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEMAR JOHNSON HOPSON

ATTEST:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JACK HUFF

WITNESS:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

F. KIRK JOHNSON III

WITNESS:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JOYRAN CORP.

ATTEST:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HAROLD LOBLEY

WITNESS:

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MANSUR TRUST

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ANN H. McREYNOLDS

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CURTIS W. MEWBOURNE

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MEWBOURNE OIL COMPANY

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MURJO OIL & ROYALTY CO.

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

OXY USA INC.

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CLARENCE W. & FREIDA T. STUMHOFFER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

PEGGY S. TAYLOR

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

TOOMBS TRUST

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

C. DANIEL WALKER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

ROYALTY OWNERS

Attest or Witness

Date Signed

Name

\_\_\_\_\_

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STATE OF TEXAS §

COUNTY OF SMITH §

The foregoing instrument was acknowledged before me this 10th  
day of JANUARY, 1974, by James Allen Brinson, as  
Attorney-in-Fact of Mewbourne Oil Company, a Delaware Corporation.

*Sue Hearon*

Notary Public, State of Texas

My Commission Expires: \_\_\_\_\_



SUE HEARON  
NOTARY PUBLIC  
State of Texas  
My Comm. Exp. 11-30-97

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for  
\_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)

- COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for  
\_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)

COUNTY OF \_\_\_\_\_ §

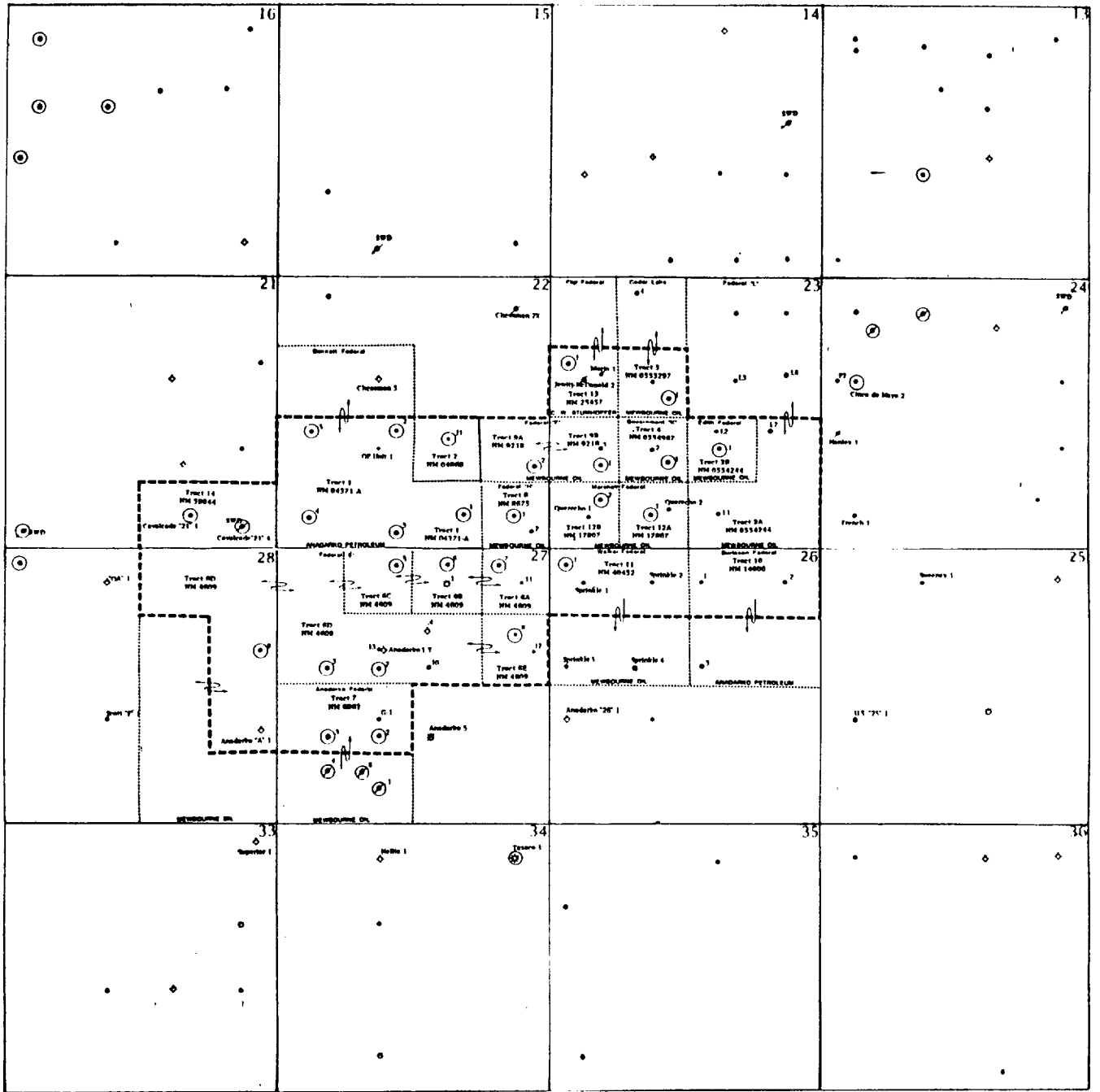
The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

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MOC

**Mewbourne Oil Company**  
 Tyler, Texas

**EXHIBIT "A"**

○ Wells With Queen Production  
**QUERRECHO PLAINS QUEEN**  
**ASSOCIATED SAND UNIT**  
**Unit Boundary and Tracts**

REVISED 7/15/93

REVISED 9/15/93

REVISED 11/15/93

UNIT AGREEMENT  
QUERRECHO PLAINS QUEN ASSOCIATED SAND UNIT  
EXHIBIT "B"

Date 12-3-93

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
1. Bennett Federal #1, #2, #3, #4, #5	SW/4 SE/4 and SW/4 of Section 22 T18S-R32E, Lea County, New Mexico	200.00	NM 04371-A HBP	12.50% USA	Anadarko Petroleum Corp.	Gary L. Bennett, et ux Margaret J. McCurdy Genevieve E. DuPont Richard D. Borgaard NationsBank Texas, N.A., Trustee under the Will of David B. Trammell NationsBank Texas, N.A., Trustee under the Will of Margaret R. Trammell Carol David Trammel L. E. Bearden, Jr. Gladys Shannon	3.5% 3.2813% 1.0156% .2438% .1656% .0828% .0828% .0781% .05%
2. Federal "J" #1	NW/4 SE/4 of Section 22 T18S-R32E, Lea County, New Mexico	40.00	NM 04868 HBP	Schedule B USA	Anadarko Petroleum Corp.	Gary L. Bennett, et ux Margaret J. McCurdy Genevieve E. DuPont Elizabeth Borgaard NationsBank Texas, N.A., Trustee under the Will of David B. Trammell NationsBank Texas, N.A., Trustee under the Will of Margaret R. Trammell Carol David Trammel L. E. Bearden, Jr. Gladys Shannon	3.5% 3.2813% 1.0156% .2438% .1656% .0828% .0828% .0781% .05%
							* Anadarko Petroleum Corp. 100.00%
							* Anadarko Petroleum Corp. 100.00%



Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
3A. Federal "L" ✓	S/2 SE/4 & NE/4 SE/4 of Section 23 T18S-R32E, Lea County, New Mexico	120.00	NM 0554244 HBP	12.50% USA	O. H. Berry 33.33333% Jack Huff 33.33333% Steve K. Burleson 16.66667% Nancy E. Hayes 16.66667%	Mewbourne Oil Company 4.00% O. H. Berry 1.33% Jack Huff 1.33% William Green 1.00% James Makins, Jr. 1.00% Michael Makins 1.00% Patrick Makins 1.00% Scott Makins 1.00% Steve Burleson .66% Nancy Hayes .66%	Mewbourne Oil Company 46.50% Curtis W. Mewbourne 28.50% Joyran Corp. 12.50% Associated Partners Ltd 1986 11.25% Hillside Syndicate 1.25%
3B. Edith Federal #2 ✓	NW/4 SE/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 0554244 HBP	12.50% USA	O. H. Berry 33.33333% Jack Huff 33.33333% Steve K. Burleson 16.66667% Nancy E. Hayes 16.66667%	James Makins 1.00% James Makins, Jr. 1.00% Michael Makins 1.00% Patrick Makins 1.00% Scott Makins 1.00% William Green .50% O.H. Berry .21486% Virginia Berry .21486% Barbara Roberts .07031%	* Mewbourne Oil Company 100.00%
4. Government "K" #1 ✓	NE/4 SW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 0554967 HBP	12.50% USA	Mobil Producing Texas & New Mexico, Inc. 100.00%	Mobil Producing Texas & New Mexico, Inc. 7.50% Joan R. Duncan 5.00%	* Mewbourne Oil Company 100.00%

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
5. Cedar Lake Federal #1	SE/4 NW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 0555297 HBP	12.50% USA	Mewbourne Oil Company	Mewbourne Oil Company William Green The Ross Family Trust Vee K. Ross, Trustee Adrian Clouthier Lucy James Rafelita Pittman John Borg Patricia Brooks Patricia Howard Ann Mills Diana Ochterbeck Jeannett Hubbard Olivia Wood Eleanor Ferris Adele Simpson Robert Clouthier Charles & Gwen Clouthier Peter Simpson Sammy Simpson Lita Sabonis Roland Simpson	* Mewbourne Oil Company 46.50% Curtis W. Mewbourne 28.50% Joyran Corp. 12.50% Associated Partners Ltd 1986 11.25% Hillside Syndicate 1.25%
6A. Federal "E" #7	NE/4 NE/4 of Section 27 T18S-R32E, Lea County, New Mexico	40.00	NM 4609 HBP	12.50% USA	Anadarko Petroleum Corp.	None	Anadarko Petroleum 36.36364% OXY USA INC. 33.33333% * Curtis W. Mewbourne 30.30303% After Payout: Curtis W. Mewbourne 33.33334% Anadarko Petroleum 33.33333% OXY USA INC. 33.33333%

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
6B. Federal "E" #6	NW/4 NE/4 of Section 27 T18S-R32E, Lea County, New Mexico	40.00	NM 4609 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	None 0.00%	Anadarko Petroleum OXY USA INC. * Curtis W. Mewbourne 36.36364% 33.33333% 30.30303%  After Payout: Curtis W. Mewbourne Anadarko OXY USA INC. 33.33334% 33.33333% 33.33333%
6C. Federal "E" #5	NE/4 NW/4 of Section 27 T18S-R32E, Lea County, New Mexico	40.00	NM 4609 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	None 0.00%	Anadarko Petroleum OXY USA INC. * Curtis W. Mewbourne 36.36364% 33.33333% 30.30303%  After Payout: Curtis W. Mewbourne Anadarko OXY USA INC. 33.33334% 33.33333% 33.33333%
6D. Federal "E" #2, #3, and #9	S/2 NW/4, NW/4 NW/4, & SW/4 NE/4 of Section 27, and N/2 NE/4, SE/4 NE/4, & NE/4 SE/4 of Section 28 T18S-R32E, Lea County, New Mexico	320.00	NM 4609 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	None 0.00%	* Curtis W. Mewbourne Anadarko Petroleum OXY USA INC. 33.33334% 33.33333% 33.33333%
6E. Federal "E" #8	SE/4 NE/4 of Section 27 T18S-R32E, Lea County, New Mexico	40.00	NM 4609 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	None 0.00%	* Curtis W. Mewbourne OXY USA INC. 50.00% 50.00%  After Payout: Curtis W. Mewbourne Anadarko Petroleum OXY USA INC. 33.33334% 33.33333% 33.33333%

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
7. Anadarko Federal #2 and #3	N/2, SW/4 of Section 27 T18S-R32E, Lea County, New Mexico	80.00	NM 6863 HBP	Schedule B USA	Anadarko Petroleum Corp. 100.00%	Anadarko Petroleum 6.25% O.H. Berry 1.388889% James J. Cole .694445% James J. Cole, Personal Representative of estate of Jimmie J. Cole, deceased .694445% Katherine Crews .462963% Sue Crews Piaget .462963% Courtenay Crews Johnson .462963%	* Mewbourne Oil Company 100.00%
8. Federal "H" #1	SE/4 SE/4 of Section 22 T18S-R32E, Lea County, New Mexico	40.00	NM 8675 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	Club O&G 1.25% Joan Duncan 1.25% Estate of J. Walter Duncan, Raymond T. Duncan, Personal Representative 1.25% J. Walter Duncan, Jr. 1.125% JWD III, Inc. .125%	* Curtis W. Mewbourne 66.66667% OXY USA, INC. 33.33333% After Payout: Curtis W. Mewbourne 33.33334% Anadarko Petroleum 33.33333% OXY USA INC. 33.33333%
9A. Federal "F" #2	NE/4 SE/4 of Section 22 T18S-R32E, Lea County, New Mexico	40.00	NM 9218 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	Anne Little 2.5% Sylvia F. Little, Personal Representative of the Estate of Curtis J. Little 2.0% Rae Little, Deceased, No Probate .25% Marjorie A. Little .25%	* Curtis W. Mewbourne 66.66667% OXY USA INC. 33.33333% After Payout: Curtis W. Mewbourne 33.33334% Anadarko Petroleum 33.33333% OXY USA INC. 33.33333%

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
9B. Federal "F" #1	NW/4 SW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 9218 HBP	12.50% USA	Anadarko Petroleum Corp. 100.00%	Anne Little 2.5% Sylvia F. Little, Personal Representative of the Estate of Curtis J. Little 2.0% Rae Little, Deceased, No Probate .25% Marjorie A. Little .25%	* Curtis W. Mewbourne 33.33334% Anadarko Petroleum 33.33333% OXY USA INC. 33.33333%
10. Federal Burleson	N/2, NE/4 of Section 26 T18S-R32E, Lea County, New Mexico	80.00	NM 14000 HBP	12.50% USA	O.H. Berry 22.222% Lewis B. Burleson 16.6665% Jack Huff 16.6665% James L. Cole 11.112% Jimmie Cole 11.112% Katherine D. Crews .83% Susie Crews 7.407% Courtney C. Johnson 7.407%	Panos Investment Co. 3.34% O.H. & Virginia Berry 1.6665% James J. Cole .8334% James J. Cole, personal representative of estate of Jimmie J. Cole, deceased .8334% Patrick T. Panos .83% Gregory P. Panos .83% Katherine D. Crews .55525% Susie Crews Piaget .55525% Courtenay C. Johnson .55525%	Anadarko Petroleum 91.66676% Jack Huff 4.16662% Mewbourne Oil Company 4.16662%
11. Walker Federal #1	N/2 NW/4 of Section 26 T18S-R32E, Lea County, New Mexico	80.00	NM 40452 HBP	12.50% USA	Lewis B. Burleson 1.30209% O.H. Berry 1.30208% Jack Huff 1.30208% Petro Atlas Corp. 18.75% Cecil J. Rhodes 3.90625% Santa Fe Energy 31.25% F.L. Shogrin 31.25% Daniel C. Walker 10.9375%	Santa Fe Energy 3.75% Frank Shogrin 2.96875% Petro Atlas 2.25% Margaret Beuch 1.3% Heyne Oil & Gas .72556% Thomas Curran .5% Horseshoe Operating .47% O.H. Berry .16% Lewis Burleson .16% Jack Huff .16% Charles Heyne .05469%	* Mewbourne Oil Company 59.375% Daniel Walker 21.875% Philip Bishop 6.25% Clarence Stumhoffer 4.6875% Freida Stumhoffer 4.6875% Peggy Taylor for Bernard Taylor 3.125%
12A. Marshall Federal #1	SE/4 SW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 17807 HBP	12.50% USA	Marshall & Winston 100.00%	Marshall & Winston, et al 12.50%	* Mewbourne Oil Company 100.00%

Unit Tract # and Well Name	Description of Land	Number of Acres	Name or # of Lease	Basic Royalty & Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest, Percentage and Designated Operator (*)
12B. Marshall Federal #2	SW/4 SW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 17807 HBP	12.50% USA	Marshall & Winston 100.00%	Marshall & Winston 12.50% Mewbourne Oil Company 5.00%	* Mewbourne Oil Company 100.00%
13. Flip Federal #1	SW/4 NW/4 of Section 23 T18S-R32E, Lea County, New Mexico	40.00	NM 25457 HBP	Schedule B USA	Murjo Oil & Royalty Co. 100.00%	None 0.00%	* Clarence Stumhoffer 35.00% Harold Lobley 10.00% Mansur Trust 10.00% Toombs Trust 10.00% Daniel Walker 9.45625% Murjo Oil & Royalty 5.95938% Gene Fulmer 5.00% Ray Fulmer 5.00% Carroll Bellah 2.25% Debra Johnson Head 1.98646% Demar Johnson Hopson 1.98646% Larry Arnold 1.375% F. Kirk Johnson III 1.09255% Ann H. McReynolds .89390%
14. Cavalcade Federal #1 & #4	S/2 SE/4 of Section 21 T18S-R32E, Lea County, New Mexico	80.00	NM 59044	Schedule B USA	Anadarko Petroleum Corp. 100.00%	Gary L. Bennett, et ux 5.15% William R. Crow 1.5% Cavalcade Oil Corp. .725% Michael Levenson .5% Kathleen A. Capps, Trustee of Heather & Nichol Capps .25% Joe K. Smith .25% Michael R. Hyden .125%	* Anadarko Petroleum Corp. 100.00%

Recapitulation:

Total Federal Acres 1520.00 acres or 100.00%  
Total Unit Acres 1520.00 acres or 100.00%

**EXHIBIT "C"**  
**UNIT AGREEMENT**

Date 12-6-93

Unit Tract # and Well Name	Working Interest, Percentage and Designated Operator (*)	Unit Participation
1. Bennett Federal #1, #2, #3, #4, #5	* Anadarko Petroleum Corp. 100.00%	4.777138%
2. Federal "J" #1	* Anadarko Petroleum Corp. 100.00%	1.097518%
3A. Federal "L" - No Well	Mewbourne Oil Company 46.50% Curtis W. Mewbourne 28.50% Joyran Corp. 12.50% Associated Partners Ltd 1986 11.25% Hillside Syndicate 1.25%	.394737%
3B. Edith Federal #2	* Mewbourne Oil Company 100.00%	7.218928%
4. Government "K" #1	* Mewbourne Oil Company 100.00%	9.455305%
5. Cedar Lake Federal #1	* Mewbourne Oil Company 46.50% Curtis W. Mewbourne 28.50% Joyran Corp. 12.50% Associated Partners Ltd 1986 11.25% Hillside Syndicate 1.25%	2.340361%
6A. Federal "E" #7	Anadarko Petroleum Corp. 36.36364% OXY USA INC. 33.33333% * Curtis W. Mewbourne 30.30303%  After Payout: Curtis W. Mewbourne 33.33334% Anadarko Petroleum Corp. 33.33333% OXY USA INC. 33.33333%	3.537488%
6B. Federal "E" #6	Anadarko Petroleum Corp. 36.36364% OXY USA INC. 33.33333% * Curtis W. Mewbourne 30.30303%  After Payout: Curtis W. Mewbourne 33.33334% Anadarko Petroleum Corp. 33.33333% OXY USA INC. 33.33333%	2.853533%

Unit Tract # and Well Name	Working Interest, Percentage and Designated Operator (*)	Unit Participation
6C. Federal "E" #5	Anadarko Petroleum Corp. OXY USA INC. * Curtis W. Mewbourne  After Payout: Curtis W. Mewbourne Anadarko Petroleum Corp. OXY USA INC. 33.33334% 33.33333% 30.30303%	4.605292%
6D. Federal "E" #2, #3, & #9	Curtis W. Mewbourne Anadarko Petroleum Corp. OXY USA INC. 33.33334% 33.33333% 33.33333%	16.448208%
6E. Federal "E" #8	* Curtis W. Mewbourne OXY USA INC. 50.00% 50.00%  After Payout: Curtis W. Mewbourne Anadarko Petroleum Corp. OXY USA INC. 33.33334% 33.33333% 33.33333%	1.285049%
7. Anadarko Federal #2 & #3	* Mewbourne Oil Company 100.00%	11.170743%
8. Federal "H" #1	* Curtis W. Mewbourne OXY USA INC. 66.66667% 33.33333%  After Payout: Curtis W. Mewbourne Anadarko Petroleum Corp. OXY USA INC. 33.33334% 33.33333% 33.33333%	3.439466%
9A. Federal "F" #2	* Curtis W. Mewbourne OXY USA INC. 66.66667% 33.33333%  After Payout: Curtis W. Mewbourne Anadarko Petroleum Corp. OXY USA INC. 33.33334% 33.33333% 33.33333%	2.013347%



Unit Tract # and Well Name	Working Interest, Percentage and Designated Operator (*)	Unit Participation
9B. Federal "F" #1	* Curtis W. Mewbourne 33.33334% Anadarko Petroleum Corp. 33.33333% OXY USA INC. 33.33333%	5.696573%
10. Federal Burleson - No Well	Anadarko Petroleum Corp. 91.66676% Jack Huff 4.16662% Lewis Burleson 4.16662%	.263158%
11. Walker Federal #1	* Curtis W. Mewbourne 59.375% Daniel Walker 21.875% Philip Bishop 6.25% Clarence Stumhoffer 4.6875% Frieda Stumhoffer 4.6875% Peggy Taylor for Bernard Taylor 3.125%	2.719877%
12A. Marshall Federal #1	* Mewbourne Oil Company 100.00%	7.497755%
12B. Marshall Federal #2	* Curtis W. Mewbourne 100.00%	1.948549%
13. Flip Federal #1	* Clarence Stumhoffer 35.00% Harold Lobley 10.00% Mansur Trust 10.00% Toombs Trust 10.00% Daniel Walker 9.45625% Murjo Oil & Royalty 5.95938% Gene Fulmer 5.00% Ray Fulmer 5.00% Carroll Bellah 2.25% Debra Johnson Head 1.98646% Demar Johnson Hopson 1.98646% Larry Arnold 1.375% F. Kirk Johnson III 1.09255% Ann H. McReynolds .89390%	2.516086%
14. Cavalcade Federal #1 & #4	* Anadarko Petroleum Corp. 100.00%	8.720888%

**EXHIBIT "D"**

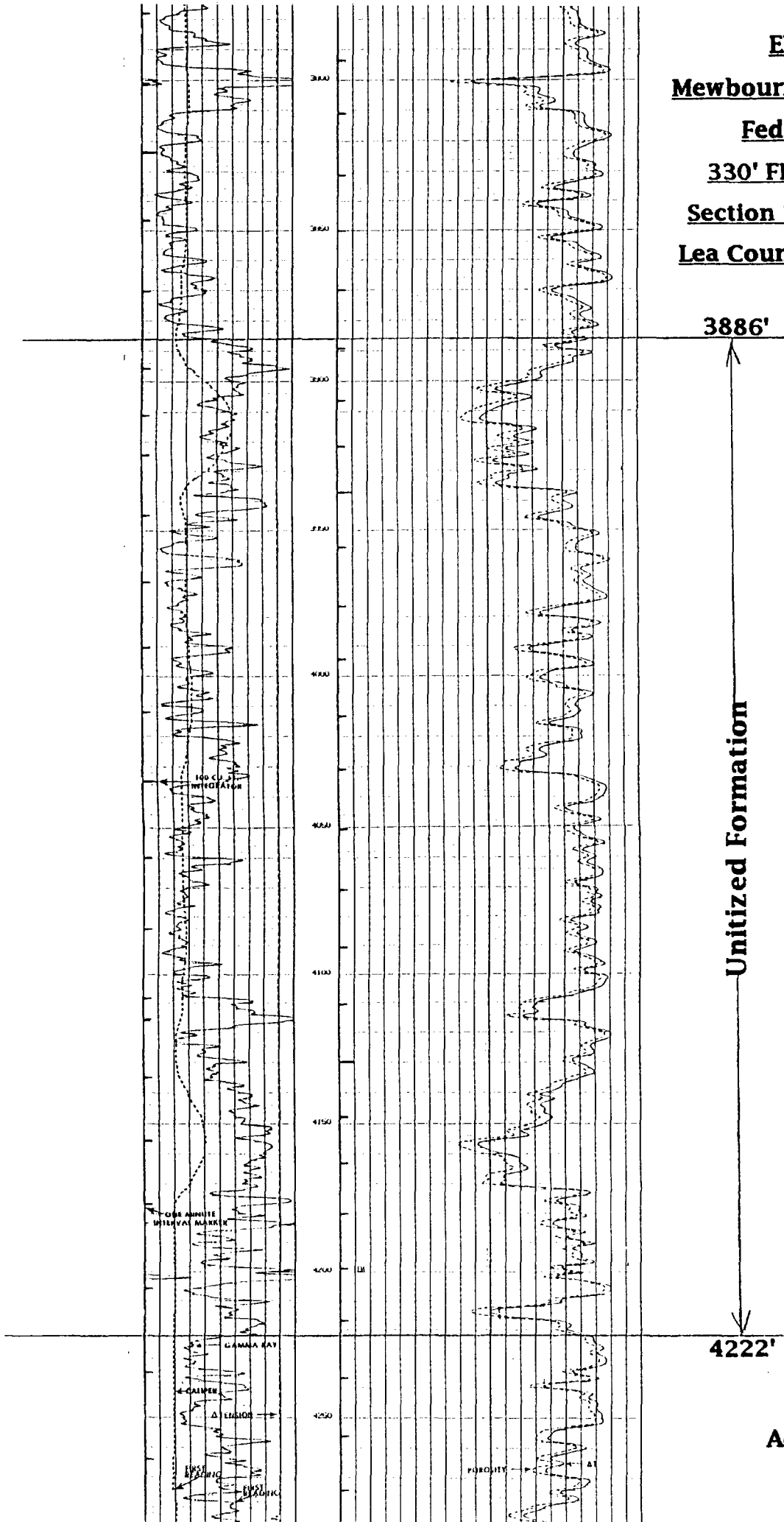
**Mewbourne Oil Company**

**Federal "E" #7**

**330' FNL & 990' FEL**

**Section 27, T18S, R32E**

**Lea County, New Mexico**



**3886'**

**Unitized Formation**

**4222'**

**WELEX**

**Compensated  
Acoustic Velocity**

**Log**

**7-15-83**

UNIT OPERATING AGREEMENT  
QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT  
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UNIT OPERATING AGREEMENT  
QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 10th day of APRIL, 1924, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto;

W I T N E S S E T H

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "Querecho Plains Queen Associated Sand Unit", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

- 1.2 Amendment of Joint Operating Agreements and Other Agreements. The provisions of existing Joint Operating Agreements and other agreements pertaining to a Unitized Substance or the Unitized Formation or operations with respect to either, are amended to the extent necessary to make them conform to the provisions of this Unit Operating Agreement and the Unit Agreement, but otherwise shall remain in effect.

## ARTICLE 2

### EXHIBITS

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

- 2.1.1 Exhibits "A", "B", "C", AND "D" of the Unit Agreement.
- 2.1.2 Exhibit "E", attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner.
- 2.1.3 Exhibit "F", attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit "F", this agreement shall govern.
- 2.1.4 Exhibit "G", attached hereto, contains insurance provisions applicable to Unit Operations.
- 2.1.5 Exhibit "H", attached hereto, contains the Gas

Balancing Agreement applicable to the Unit.

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

#### CREATION OF OPERATING COMMITTEE

#### AND SUPERVISION OF UNIT OPERATIONS

- 3.1 Creation of Operating Committee. An Operating Committee is hereby created to consist of one representative to be designated by each Working Interest Owner. Each Working Interest Owner shall, in writing, inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. Unit Operator likewise shall inform all other Working Interest Owners of the name and address of its representative. The representative or alternate may be changed from time to time by written notice to Unit Operator.
- 3.2 Officers. The representative of the Unit Operator shall be Chairman of the Operating Committee. The Committee shall elect a Secretary and such other officers as the Committee deems proper. The Secretary and other officers



may, but need not be, members of the Committee. The Secretary shall keep and maintain the records of the action of the Committee. The officers shall serve at the will of the Operating Committee and perform the other duties that are delegated to them by the Operating Committee.

3.3 Overall Supervision. The Operating Committee shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Unit Operating Agreement and the Unit Agreement.

3.4 Specific Authority and Duties. The matters with respect to which the Operating Committee shall decide and take action shall include, but not be limited to, the following:

3.4.1 Method of Operation. The method of operations, including pressure maintenance, secondary recovery, or other enhanced recovery program to be employed on the Unit Area.

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

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

3.4.4 Expenditures. The making of any single

expenditure in excess of Fifty Thousand Dollars (\$50,000); however, approval by the Operating Committee of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing and equipping the well, including necessary flow lines, separators, and lease tankage. The Unit Operator shall furnish the Operating Committee a detailed Authority for Expenditure (AFE) for their formal approval of each expenditure estimated to require in excess of Fifty Thousand Dollars (\$50,000).

3.4.5 Disposition of Unit Equipment. The sale or other disposal of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Twenty-five Thousand Dollars (\$25,000), or more. All dispositions will be made in accordance with Exhibit "F".

3.4.6 Appearance Before a Court or Regulatory Agency. The designation of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from

appearing in person or from designating another representative in its own behalf and at its own expense.

3.4.7 Audits. The audit of the accounts of Unit Operator pertaining to Unit Operations hereunder, provided that an audit shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator; and
- (b) be made at the expense of all Working Interest Owners other than Unit Operator if conducted subsequent to the approval of the owner or owners of a majority percentage of Working Interest other than that of Unit Operator; or,
- (c) be made at the expense of those Working Interest Owners requesting such audit, if the audit is requested by owners of less than a majority of Working Interest; said owners will pay for the audit in proportion to said owners interest in the Unit;
- (d) be made upon not less than thirty (30) days written notice to Unit Operator; and
- (e) be conducted in accordance with the Accounting Procedure, Exhibit "F", attached hereto.

(f) be limited to records pertaining to Unit Operations that occurred not more than twenty-four (24) months preceding the beginning of the current calendar year; and

(g) be limited to records not previously audited.

3.4.8 Assignment to Committee. The appointment of committees to study any problems in connection with Unit Operations.

3.4.9 Removal of Unit Operator. The removal of Unit Operator and the selection of a successor as provided in Article 4.2 and 4.3.

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

3.4.11 Adjustment of Investments. The adjustment and readjustment of investments.

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

3.5 Meeting of Operating Committee. All meetings of the Operating Committee shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a combined total Unit Participation of not less than fifteen percent (15%). The Unit Operator shall be Chairman of each meeting. No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting

attached. The Operating Committee shall have the right to amend items included on the agenda and to decide the amended items or other items presented at the meeting. Provided, however, that the total cost of each non-agenda item voted upon shall not exceed Fifty Thousand Dollars (\$50,000). Minutes shall be made of all meetings of the Operating Committee and kept as part of the permanent records of the Unit. Such minutes need not be a verbatim record but shall include the action taken on all matters voted upon in the meeting and a record of all poll votes taken since the previous meeting. A copy of the minutes of each meeting shall be mailed to each member of the Operating Committee within a reasonable time after the meeting.

3.6 Voting Procedure. The Operating Committee shall decide all matters coming before it as follows:

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

3.6.2 Voting Required. Unless otherwise provided herein or in the Unit Agreement, the Operating Committee shall determine all matters by the affirmative vote of two or more Working Interest Owners having a combined voting interest of at least seventy percent (70%).

3.6.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner

who is not represented at a meeting may vote on any agenda item by letter, telegram, or facsimile addressed to the representative of the Unit Operator if its vote is received prior to the vote at the meeting.

3.6.4 Poll Votes. The Operating Committee may vote on and decide, by letter, telegram, or facsimile any matter after submitted in writing to the members of the Committee. Poll votes may be in the form of an AFE with written explanation of the reason for the required expenditure or in any other form appropriate to the matter. Approval of the matter submitted to poll vote will have the same force and effect as any other vote of the Operating Committee. If a meeting is not requested, as provided in Section 3.5, within fourteen (14) days after a written proposal is sent to the members of the Operating Committee, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all members of the Operating Committee.

3.7 Non-Liability. No member of the Operating Committee, or any other committee, shall be liable or individually responsible for any act, error,

default or omission as a member of such committee or committees.

#### ARTICLE 4

##### UNIT OPERATOR

- 4.1 Unit Operator. Mewbourne Oil Company, a corporation, is hereby designated as Unit Operator.
- 4.2 Resignation or Removal. Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of two or more Working Interest Owners having ninety percent (90%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period. A change of a corporate name or legal structure of Unit Operator or transfer of Unit Operator's interest to any single subsidiary, parent or successor corporation, or other affiliated entity, shall not be the basis for removal of Unit Operator.
- 4.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by the Operating Committee. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator may be

selected by the affirmative vote of a majority of the voting interest remaining after excluding the voting interest of the removed Unit Operator.

## ARTICLE 5

### AUTHORITY AND DUTIES OF UNIT OPERATOR

- 5.1 Exclusive Right to Operate Unit. Subject to the provisions of the Unit Agreement and this Unit Operating Agreement and to instructions from the Operating Committee, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.
- 5.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a reasonably prudent Operator under the same or similar circumstances. Unit Operator shall freely consult with the Operating Committee and keep them informed of all matters which Unit Operator, in the exercise of its discretion, considers necessary. Unit Operator shall not be liable to Working Interest Owners, Royalty Owners, or other Persons for any losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.
- 5.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.



- 5.4 Proceeds of Production. Unit Operator shall have the right to receive one hundred percent (100%) of the proceeds attributable to production from the purchasers and disburse these proceeds to the Working Interest Owners and Royalty Owners; provided, however, this provision shall not apply to any Unitized Substances taken in kind.
- 5.5 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees may be the employees of Unit Operator.
- 5.6 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.
- 5.7 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.
- 5.8 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.
- 5.9 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations by Unit Operator.
- 5.10 Expenditures. Unit Operator is authorized to make single expenditures not estimated to be in excess of Fifty

Thousand Dollars (\$50,000) without prior approval of the Operating Committee. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

5.12 Mathematical Errors. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the exhibits to this agreement.

5.13 Indemnities. As to all contracts executed by the Unit Operator with any independent contractor with respect to services to be performed in connection with Unit Operations, Unit Operator shall require that any indemnification provision in favor of Unit Operator contained therein shall extend to and inure to the benefit of Working Interest Owners in the same manner as Unit Operator.

5.14 Restoration of Surface Conditions Existing Prior to Unitization. A Working Interest Owner, with respect to the lands contributed by such Working Interest Owner to the Unit, upon request of Unit Operator, shall fill all pits, remove concrete foundations, or perform any other restoration work necessary to repair surface damage which existed prior to the Effective Date to a condition acceptable to the governmental regulatory body with jurisdiction. If any Working Interest Owner has not completed said work within ninety (90) days after notification by Unit Operator, then Unit Operator shall be authorized to perform the necessary restoration. The cost of any work to restore the surface to a condition that is acceptable to the governmental regulatory body with jurisdiction shall be borne entirely by the Working Interest Owner or Owners who contributed such lands to the Unit; provided, however, that any restoration work required to be performed by the original Working Interest Owners must be performed within one (1) year after the Effective Date, and must further be in compliance with governmental regulatory body requirements in effect on the Effective Date.

## ARTICLE 6

### INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

6.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as other-

wise provided in this Unit Operating Agreement and the Unit Agreement.

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

6.2.1 Access to Unit Area. Access to the Unit Area at such Working Interest Owner's own risk at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

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

## ARTICLE 7

### INSURANCE

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

7.1.1 Worker Compensation Law. Comply with the Worker Compensation Law of the State; and

- 7.1.2 Employers' Liability. Carry Employer's Liability and other insurance required by the laws of the State; and
- 7.1.3 Contractor Compliance. Require that each contractor and subcontractor engaged in Unit Operations comply with applicable worker's compensation laws of the State; and
- 7.1.4 Other Insurance Provisions. Provide other insurance as set forth in Exhibit "G".

## ARTICLE 8

### TAXES

- 8.1 Ad Valorem Taxes. Ad Valorem taxes shall be paid by Unit Operator and charged to the joint account.
- 8.2 Other Taxes. The Unit Operator shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or in respect to the production or handling of Unitized Substances, and shall charge such amounts to the joint account.
- 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 Person hereby affected 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 the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each Person hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and the data required by Federal Regulations CFR §1.761-1(a). Should there be any requirement that each Person hereby affected give further evidence of this election, each such Person 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. No such Person shall 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 of New Mexico or any future income tax laws 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 Person hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such Person states that the income derived by such Person from Unit

Operations can be adequately determined without the computation of partnership taxable income.

## ARTICLE 9

### ADJUSTMENT OF INVESTMENTS

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

9.1.1 Wells. All wells, currently completed in the Unitized Formation within the Unit Area and the casing therein to the base of the Unitized Formation.

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

9.1.3 Records. A copy of all production and well records for such wells and copies of all regulatory reports previously filed for such wells.

9.2 Inventory and Evaluation of Personal Property. The Operating Committee shall, at the Unit's expense, inventory and evaluate well and lease equipment as of the Effective Date, said inventory to be made as close as

practicable to such date. The Unit Operator shall notify all Working Interest Owners at least ten (10) days prior to the date for starting the inventory and each Working Interest Owner shall have the right to designate a representative to serve on an Inventory Committee to be charged with taking the inventory. The inventory and evaluation shall include major installed items only. Each installed item of common manufacture will have a common value. Items that shall be contributed, inventoried, and evaluated are wells below ground, including but not limited to rods, tubing and casing, wellhead assemblies, tank batteries by tankage, treaters, separators, flowlines, and pumping units, including prime mover. Well casing shall be included in the inventory and assigned a zero value.

- 9.3 Investment Adjustment. Upon approval by the Operating Committee of the inventory and evaluation, each Working Interest Owner contributing such inventoried equipment shall be credited with the value of its interest in all personal property taken over under Articles 9.1 and 9.2 and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Articles 9.1.1 and 9.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense



chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be (1) credited against amounts owed by such Working Interest Owner toward the original Capital Expenditure AFE amount for the design, construction and implementation of Secondary Recovery techniques; then (2) remaining net credit to such Working Interest Owner, after credit for (1) above, shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges for inventory adjustment as herein described.

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

9.5 Adjustment for Nonusable Wells. All wells delivered to the Unit Operator shall be (a) in usable physical condition, (b) completed in some portion of the Unitized Formation, and (c) physically separated from formations not a part of the Unitized Formation as of the Effective Date. If, within six (6) months after the Effective Date, any such well is determined by the Operating Committee not to have met the requirements hereinabove stated when taken over, including, but not limited to,

defective casing or junk in the well, the Working Interest Owner who contributed such well shall be liable to the Unit in an amount equal to the cost to the Unit of repairing such Unit well.

9.6 Plugged and Abandoned Wells. The foregoing provisions of Article 9 (being Articles 9.1 to 9.5, inclusive) are not applicable to any well owned by parties hereto and located on the Unit Area that are plugged and abandoned prior to the Effective Date and remain plugged and abandoned as of the Effective Date, whether or not any such well was completed in the Unitized Formation prior to being plugged and abandoned. If it is determined by the Operating Committee within twelve (12) months after the Effective Date that any such plugged and abandoned well is necessary or desirable for Unit Operations then such well and all casing therein and all production and well records therefore, shall be delivered to Unit Operator for Unit purposes, but there shall be no evaluation thereof or investment adjustment with respect thereto.

## ARTICLE 10

### UNIT EXPENSE

10.1 Basis of Charge to Working Interest Owners. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit "F". Each Working Interest Owner shall be chargeable with and responsible for the payment

of Unit Expense on the basis of each Working Interest Owner's Unit Participation. Each Working Interest Owner's share shall be the same as the ratio of its Unit Participation to the total Unit Participation of all Working Interest Owners in the Unit.

10.2 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustment between estimates and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

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

10.4 Unpaid Unit Operating Expense. If any Working Interest Owner fails to pay its share of Unit Operating Expense within ninety (90) days after rendition of a statement therefor by Unit Operator, the unpaid balance shall bear interest at the rate of one and one-half percent (1½%) per month on the unpaid balance. Each Working Interest

Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Operating Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Operating Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated proportionally to the lien and other rights herein granted Unit Operator. Upon failure of any Working Interest Owner to pay its share of the Unit Operating Expense, together with interest as prescribed herein, the Unit Operator shall be entitled to collect and receive from the Purchaser the proceeds from such Working Interest Owner's share of the Unitized Substances in satisfaction of such debt. Further, all Working Interest Owners covenant and agree to save all purchasing companies harmless from any and all liability by reason of paying such proceeds to Unit Operator. Each purchaser shall be entitled to rely on Unit Operator's written statement of amounts in default. All credits to any such defaulting Working Interest Owner on account of the sale or other disposal of Unit Equipment, or otherwise, shall also be applied against

the unpaid share of Unit Operating Expense charged against such Working Interest Owner.

10.5 Payment of Capital Expenditures. Capital expenditures required for Unit Operations, after approval by the Operating Committee, shall be billed to the individual Working Interest Owners. If any Working Interest Owner fails to pay its proportionate share of such Capital Expenditure within ninety (90) days of billing thereof, any such defaulting Working Interest Owner shall not be entitled to participate in, nor shall its account be credited with, any share of the proceeds of Unitized Substances and instead such defaulting Working Interest Owner shall be deemed to have relinquished to Unit Operator, or, at the option of Unit Operator, all non-defaulting Working Interest Owners who shall carry and pay such defaulted Capital Expenditure until such Capital Expenditure in default shall have been recovered from the operating income attributable to such defaulting Working Interest Owner, after first deducting Unit Operating Expense therefrom, plus an amount equal to two hundred percent (200%) of such defaulted Capital Expenditure. Upon failure by any Working Interest Owner or owners to pay within the period prescribed above, its or their proportionate share of such Capital Expenditure, the unpaid balance shall be carried and paid by Unit Operator, or, at the option of Unit Operator, by all non-defaulting Working Interest Owners in the same proportion

that each was initially responsible for the Capital Expenditure. Operator, at its option, may give notice to all remaining Working Interest Owners of such default. All Working Interest Owners receiving any such notice shall carry its or their proportionate part of any such defaulting Working Interest Owner or Owners interest in addition to its original interest. Any such additional amounts shall be due and payable to Unit Operator within ten (10) days following receipt of notice. The party or parties so paying shall be reimbursed therefore, when costs plus an amount equal to two hundred percent (200%) of such costs is collected from the Working Interest Owner or Owners primarily chargeable therewith or recovered out of the proceeds from the defaulting Working Interest Owner's share of Unitized Substances. Upon failure by any Working Interest Owner to pay its share of any Capital Expenditure the Unit Operator for the benefit of the Unit shall be entitled to collect and receive from the Purchaser the proceeds that otherwise would accrue to such Working Interest Owner's share of the Unitized Substances in satisfaction of such debt. Further, all Working Interest Owners covenant and agree to save all purchasing companies harmless from any and all liability by reason of paying such proceeds to Unit Operator. Each purchaser shall be entitled to rely on Unit Operator's written statement of amounts in default. All credits to any such defaulting Working Interest Owner on account of

the sale or other disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of such Capital Expenditures charged against such Working Interest Owner.

10.6 Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net profits interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the term and provisions of this agreement, specifically including, but without limitation, Article 10.7 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest 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 the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Article 10.7 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

10.7 Lien and Security Interest of Unit Operator. In addition to other rights provided herein, and notwithstanding the

other paragraphs of this Article 10 of the Unit Operating Agreement, each Working Interest Owner grants to Unit Operator a first and prior 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, in order to secure payment of its share of Unit Expense. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by 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 defaults. Unit Operator grants a like lien and security interest to the Non-Operators to secure payment of Unit Operator's proportionate share of expense.



## ARTICLE 11

### NONUNITIZED FORMATIONS

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

## ARTICLE 12

### TITLE

12.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "E", and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit

Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the sum of any net credit paid to such Person pursuant to Article 9.1 and the net proceeds that have been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 A.M. on the first day of the succeeding calendar month following determination of such failure. There shall be no retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

12.2 Failure 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 Working Interest Owners at the time of the title failure.

12.3 Title Examination. Unit Operator is hereby authorized to conduct such title examination and title curative work on any Tract or Tracts (whether owned by Unit Operator or any other Working Interest Owner) as it deems necessary or advisable from time to time for purposes of preventing any title failure because of Unit Operations; and each Working Interest Owner who owns any interest in any such Tract agrees to cooperate in such title examination and

agrees to furnish to Unit Operator all records affecting title, including and not limited to Title Opinions and Abstracts of Title, that may be in such Working Interest Owner's possession or control. All costs and expenses incurred in such title examination and curative work conducted for said purposes shall be treated as a direct charge to the Joint Account under Unit Expense.

### ARTICLE 13

#### LIABILITY, CLAIM AND SUITS

- 13.1 Individual Liability. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners. Each party hereto shall be individually responsible for its own obligations as herein provided.
- 13.2 Notice of Damages, Claims and Suits by Unit Operator to Working Interest Owners. Unit Operator shall report to Working Interest Owners, as soon as practical after each occurrence: (a) damages or losses to Unit Equipment exceeding Ten Thousand Dollars (\$10,000) in value, and (b) accidents, occurrences, claims or suits involving third party bodily injury or property damage expected to exceed Ten Thousand Dollars (\$10,000) in amounts which are not thought to be covered by insurance carried for benefit of Working Interest Owners.

13.3 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), provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the Operating Committee shall assume and take over 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. 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 Unit Operating 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 14

##### NOTICES

14.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram or sent by facsimile transmission to the address or facsimile telephone number

of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 3.

## ARTICLE 15

### WITHDRAWAL OF WORKING INTEREST OWNER

15.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by assigning, without warranty of title, either express or implied, to the other Working Interest Owners all its Oil and Gas Leasehold Estate as to the Unitized Formation, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of assignment may be delivered to Unit Operator for the transferees. Such assignment shall not relieve the withdrawing Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the assignment. The interest assigned shall be owned by the remaining Working Interest Owners in proportion to their respective Unit Participation. The assignees, in proportion to their respective interest so acquired, shall pay assignor the net salvage value thereof as determined by the Unit Operator for its interest in Unit Equipment. After the date of delivery of the assignment, the withdrawing Working Interest Owner shall be relieved from any later accruing obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest assigned.

## ARTICLE 16

### ABANDONMENT OF WELLS

- 16.1 Rights of Former Owners. If the Operating Committee decides to permanently abandon any well within the Unit Area prior to termination of the Unit, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of thirty (30) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the well, by taking over the well, agree to seal off and protect the Unitized Formation in a manner satisfactory to the Unit Operator and upon abandonment to plug the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.
- 16.2 Plugging. If the Working Interest Owners of a well do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico with the expense of plugging to be charged to the joint account.

## ARTICLE 17

### EFFECTIVE DATE, TERM, AND ABANDONMENT OF OPERATIONS

17.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective. Upon its Effective Date, this Unit Operating Agreement shall supersede and be substituted for any and all previously existing operating agreements covering the Unitized Formation, or any portion thereof.

17.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect.

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

17.3.1 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.

17.3.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations of the Oil Conservation Division of the State of New Mexico.

- 17.3.3     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.
- 17.3.4     Plugging and Abandoning Wells.     The responsibility and expense of plugging and abandoning all wells not taken over by individual Working Interest Owners pursuant to Article 17.3.2 hereof, shall be borne by the Working Interest Owners as a Unit Expense in the same manner as if the unit were still in effect. It is expressly understood that upon termination of this Unit Agreement, the responsibility and expense of plugging wells in compliance with all applicable laws and regulations shall rest with all of the Working Interest Owners of the Unit.
- 17.3.5     Cost of Salvage - Distribution of Assets.     Working Interest Owners shall share in the cost of salvaging Unit Equipment and in the liquidation and distribution of the Unit Equipment, assets, and properties used in Unit Operations in proportion to their respective Secondary Phase Unit Participations.
- 17.3.6     Obligation Payable After Termination.     If any liability or obligation incurred prior to



termination of the Unit shall accrue and become payable thereafter, the amount shall be borne and paid as Unit Expense in the same manner as if it had accrued prior to termination of the Unit at the time of its incurrence.

## ARTICLE 18

### RIGHTS OF WAY AND EASEMENTS

18.1 Assignment to Unit Operator. Each Working Interest Owner having rights-of-way, easements or leasehold interest in surface sites necessary for Unit Operations hereby agrees to assign, to the extent of its right and interest, to Unit Operator for the benefit of the Working Interest Owners, a non-exclusive right and interest in and to such interest. A Working Interest Owner having such an interest shall, upon request of the Unit Operator after the Effective Date execute and deliver to Unit Operator, in recordable form, an assignment of such rights and interests, together with copies of the instruments creating such interests and any maps or plats further describing and depicting the affected premises. The owners of such interest agree to make any rental payments or other payments which may become due to avoid termination of any such interest. Any payments made under this paragraph shall be a direct charge under Unit Expense.

18.2 Rights of Unit Operator. Such interest described in Article 18.1 above, shall continue in Unit Operator for so long as such are used for Unit Operations. In the event the initial Unit Operator ceases to be such Unit Operator, it shall assign such rights and interests to the succeeding Unit Operator.

## ARTICLE 19

### EXECUTION

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

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

Attest by Secretary, with Corporate Seal, if a Corporation, or  
Witness, if an Individual

### UNIT OPERATOR

OPERATOR:

MEWBOURNE OIL COMPANY

DATE: 1/10/94

ATTEST:



By: James Allen Brinson

WORKING INTEREST OWNERS

DATE: \_\_\_\_\_

ANADARKO PETROLEUM CORPORATION

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ASSOCIATED PARTNERS LTD 1986

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CARROLL BELLAH

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

PHILIP R. BISHOP

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

LEWIS BURLESON

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

GENE FULMER

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

RAY FULMER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEBRA JOHNSON HEAD

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HILLSIDE SYNDICATE

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEMAR JOHNSON HOPSON

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JACK HUFF

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

F. KIRK JOHNSON III

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JOYRAN CORP.

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HAROLD LOBLEY

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MANSUR TRUST

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ANN H. McREYNOLDS

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CURTIS W. MEWBOURNE

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MEWBOURNE OIL COMPANY

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

MURJO OIL & ROYALTY CO.

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

OXY USA INC.

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

\_\_\_\_\_

CLARENCE W. & FREIDA T. STUMHOFFER

By: \_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

PEGGY S. TAYLOR

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

TOOMBS TRUST

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

C. DANIEL WALKER

By: \_\_\_\_\_

STATE OF TEXAS §

COUNTY OF SMITH §

The foregoing instrument was acknowledged before me this 11th day of JANUARY, 1971, by James Allen Brinson, as Attorney-in-Fact of Mewbourne Oil Company, a Delaware Corporation.

*Sue Hearon*

Notary Public, State of Texas

My Commission Expires: \_\_\_\_\_



SUE HEARON  
NOTARY PUBLIC  
State of Texas  
My Comm. Exp. 11-30-87

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for \_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for \_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_



EXHIBIT "E"  
WI OWNER TOTAL UNIT PARTICIPATION  
UNIT PARTICIPATION SUMMARY

Date 10/4/93

Working Interest Owner	% Total Initial Cap. Investment Interest *	% Total Unit Participation
Anadarko Petroleum Corporation	28.129758	28.129758
Arnold, Larry	.034596	.034596
Associated Partners Ltd 1986	.307698	.307698
Bellah, Carroll	.056612	.056612
Bishop, Philip R.	.169992	.169992
Fulmer, Gene	.125804	.125804
Fulmer, Ray	.125804	.125804
Head, Debra Johnson	.049981	.049981
Hillside Syndicate	.034189	.034189
Hopson, DeMar Johnson	.049981	.049981
Huff, Jack	.010965	.010965
Johnson, F. Kirk III	.027489	.027489
Joyran Corp.	.341887	.341887
Lobley, Harold	.251609	.251609
Mansur Trust	.251609	.251609
McReynolds, Ann H. (Cons.)	.022491	.022491
Mewbourne, Curtis W.	14.072489	14.072489
Mewbourne Oil Company	40.188992	40.188992
Murjo Oil and Royalty Company	.149943	.149943
OXY USA INC.	13.292986	13.292986

Working Interest Owner	% Total Initial Cap. Investment Interest *	% Total Unit Participation
Stumhoffer, Clarence W.	1.008124	1.008124
Stumhoffer, Freida T.	.127494	.127494
Taylor, Peggy S. (Bernard)	.084996	.084996
Toombs Trust	.251609	.251609
Walker, C. Daniel	.832900	.832900

\* See Unit Operating Agreement Article 10.1, Unit Expense

## EXHIBIT "F"

Attached to and made a part of the Unit Operating Agreement of the Querecho Plains Queen Associated Sand Unit between Mewbourne Oil Company, as Unit Operator, and all other Working Interest Owners as Non-Operators.

### ACCOUNTING PROCEDURE

#### JOINT OPERATIONS

##### I. GENERAL PROVISIONS

##### 1. Definitions

- 1.1 Joint Property shall mean the Unit Area, Unitized Formation, Unitized Substances, and Unit Equipment subject to the agreement to which this Accounting Procedure is attached.
- 1.2 Unit Operations shall mean all operations conducted by the Unit or Unit Operator pursuant to this Unit Agreement for or on account of the development and operation of the Unitized Formation including the implementation and operation of secondary recovery techniques for the production of Unitized Substances.
- 1.3 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.
- 1.4 Unit Operator shall mean the party designated to conduct the Joint Operations.
- 1.5 Non-Operators shall mean the Working Interest Owners to

this agreement other than the Unit Operator.

1.6 Parties shall mean Unit Operator and Working Interest Owners.

1.7 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.

1.8 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/or problems for the benefit of the Joint Property.

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

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

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

## 2. Statement and Billings

Unit Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of 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

3.1 Advances and Payments by Non-Operators. Unless otherwise provided for in the agreement, the Unit Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Unit Operator shall adjust each monthly billing to reflect advances received from the Non-Operators. Each Non-Operator shall pay to Unit Operator in Smith County, Texas, its proportion of all bills within ninety (90) days after receipt. If payment is not made within such time, the unpaid balance and interest shall be recovered as provided by terms of Article 9.5 of this Unit Operating Agreement.

3.2 Interest Rates

SEE ARTICLE 10.4 OF UNIT OPERATING AGREEMENT

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 Unit 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 Unit Operator for adjustment. No adjustment favorable to Unit 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

Non-Operator, upon notice in writing to Unit Operator and all other Non-Operators, shall have the right to audit Unit Operator's accounts and records relating to the Joint Account. The audit shall be limited to records pertaining to Unit Operations that occurred not more than twenty-four (24) months preceding the beginning of the current 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 conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Unit Operator. Unit Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Unit Operator. Audits will be made in accordance with Article 3.4.7 of the Unit Operating Agreement.

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, Unit Operator shall notify all Non-Operators of the Unit 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

Unit Operator shall charge the Joint Account with the following items:

### 1. Rental and Royalties

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

### 2. Labor

#### 2.1 Salaries and Wages

2.1.1 Salaries and wages of Unit Operator's field employees directly employed on the Joint Property in the conduct of Unit Operations.

2.1.2 Salaries of First Level Supervisors in the field.

2.1.3 Salaries and wages of Technical Employees directly employed for the benefit of the Joint Property.

#### 2.2 Benefits

Unit Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to

the Joint Account under Paragraph 2A of this Section II. Such costs under the Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Unit Operator's cost experience.

2.3 Regulatory Assessments

Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Unit Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

2.4 Personal Expenses

Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2.1 of this Section II.

3. Employee Benefits

Unit 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 Unit Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Unit Operator's actual cost.

4. Material

Material purchased or furnished by Unit Operator for use on the Joint Property as provided under Section IV. Only such



Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

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

5.1.1 If Material is moved to the Joint Property from the Unit 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, unless agreed to by the Parties.

5.1.2 If surplus Material is moved to Unit 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 unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Unit Operator, unless agreed to by the Parties.

5.1.3 In the application of Subparagraphs 5.1.1 and 5.1.2 above, there shall be no equalization of

actual gross trucking cost of \$400 or less  
excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Unit Operator

7.1 Unit Operator shall charge the Joint Account for the use of Unit Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operation expense, insurance, taxes, depreciation, and interest. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

7.2 In lieu of charges in Paragraph 7.1 above, Unit Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property. For automotive equipment, Unit Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property. Representation before regulatory or governmental agencies, title opinions, title curative matters and other similar types of legal expenses shall be charged to the Joint Account.

10. Taxes

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

11. Insurance

As provided in Exhibit "G" to the Unit Operating Agreement.

12. Other Expenditures

Any other expenditure not covered or dealt with in the

foregoing provisions of this Section II, or in Section III, and which is incurred by the Unit Operator in the necessary and proper conduct of the Unit Operations.

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

1.1 As compensation for administrative, supervision, office services and warehousing costs, Unit Operator shall charge drilling and producing operations on a fixed rate basis as defined in Paragraph 1.3.

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 2.1, Section II.

1.2 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, exclusive of reservoir management engineering, shall be covered by the Overhead rates.

#### 1.3 Overhead - Fixed Rate Basis

1.3.1 Unit Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 4,600

Producing Well Rate \$ 511

1.3.2 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 or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, or other units used in workover, commence through date of rig or unit, release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

(1) An active well either produced, injected into, or used as water supply for any portion of the month

shall be considered as a one-well charge for the entire month.

(2) A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

(3) 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.

(4) The central production facility serving Joint Unit Operations shall receive a one well count for application of one Producing Well Rate.

1.3.3 The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the

index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

2. Overhead - Major Construction

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

2.1 5% of total costs if such costs are more than \$25,000 but less than \$100,000; plus

2.2 3% of total costs in excess of \$100,000 but less than \$1,000,000; plus

2.3 2% of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the

Parties hereto if, in practice, the rates are found to be insufficient or excessive.

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

Unit Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Unit Operator shall provide all Material for use on the Joint Property; however, at Unit Operator's option, such Material may be supplied by the Non-Operator. Unit Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Unit Operator by Non-Operator, division in kind, or sale to outsiders. Unit 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 Unit Operator shall be agreed to by the Parties.

##### 1. Purchases

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

##### 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Unit



Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

**2.1 New Material (Condition A)**

2.1.1 All tubular goods, including line pipe, shall be priced at the current new price in effect on date of movement, F.O.B. location.

2.1.2 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 where such Material is normally available.

**2.2 Good Used Material (Condition B)**

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

2.2.1 Material moved to the Joint Property

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

2.2.2 Material moved from the Joint Property

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

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was

originally charged to the Joint Account  
as good used Material at seventy-five  
percent (75%) of current new price.

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

2.3 Other Used Material (Condition C and D)

2.3.1 Condition C

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

2.3.2 Condition D

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

Operators.

2.3.4 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.

2.3.5 Pricing Conditions

(a) Loading and unloading costs may be charged to the Joint Account at the rate of twenty-five (25¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(b) 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 Unit Operator has no

control, the Unit Operator may charge the Joint Account for the required Material at the Unit 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, but so electing and notifying Unit Operator within ten days after receiving notice from Unit Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Unit Operator.

4. Warranty of Material Furnished by Unit Operator

Unit 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 Unit Operator from the manufacturers or their agents.

## V. INVENTORIES

The Unit Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Unit Operator of the Joint Account Controllable Material. Written notice of intention to take inventory, other than the initial inventory, shall be given by Unit 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 Unit Operator.

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

- 4. Expense of Conducting Periodic Inventories

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

## EXHIBIT "G"

Attached to the Unit Operating Agreement of the Querecho Plains Queen Associated Unit between Mewbourne Oil Company, as Unit Operator, and all other Working Interest Owners as Non-Operator.

### INSURANCE TO BE CARRIED

The Unit Operator shall provide Workman's Compensation coverage in accordance with law of the state of New Mexico. No other insurance shall be provided by the Unit Operator for the benefit of the parties hereto.

Unit Operator shall not be required to carry any other insurance for the Joint Account, and shall not be required to carry the above insurance with limits in excess of the limits shown above. Each Party, including the Unit Operator, may individually acquire any other insurance as it deems proper to protect itself, and may acquire the above insurance with limits in excess of the limits shown above. Any such insurance acquired by a Party individually shall be for its sole use only and no other Party to this Agreement for the Joint Account may claim that excess insurance as their own.

In addition to the above referenced types of insurance coverage, Unit Operator may, but is not required to, carry additional types of insurance coverage including, but not limited to, various types of excess umbrella liability, public property damage, oil lease property, well control, pollution or contamination, or similar coverage. The actual premiums paid for

all insurance shall be charged on a pro-rata basis to the Joint Account of the Parties hereto.

Any liability, loss, damage claim or expense resulting from accidents or occurrences not covered by insurance of the character referred to above, or in excess of the insurance actually carried under the above provisions, shall be borne by the Parties hereto in the proportions in which they own in the Unit Area. In the event Unit Operator is unable to procure and maintain any of the minimum insurance coverages enumerated above, Unit Operator shall promptly give written notice thereof to the other Parties and in such event, resulting loss, damage, claim and expense shall be borne by the Parties hereto in proportion to their respective interests in the Unit Area. Such notice shall also constitute a waiver of the requirement that Unit Operator procure and maintain the insurance which is the subject of notice.

Upon request, Unit Operator shall furnish signatory Parties with a Certificate from the insurer or insurers evidencing that satisfactory coverage as set forth above are in force and providing that insurer or insurers shall notify signatory Parties other than Unit Operator at least 30 days prior to the date of cancellation or the date on which a material change in coverage will become effective.

To protect against liability, loss or expense arising from damage to property, or injury or death of any person or persons incurred in any way out of, in connection with, or resulting from the operations provided hereunder, Unit Operator shall, whenever practicable, require subcontractors to obtain such insurance as

required by Unit Operator from reliable insurance companies and authorized to do business in the state of New Mexico. Each policy shall provide for a waiver of subrogation rights against the signatory Parties.



## EXHIBIT "H"

### GAS BALANCING AGREEMENT

Attached to and made a part of that certain Unit Operating Agreement dated 1-10-94 by and between Mewbourne Oil Company as Unit Operator, and the parties listed therein as Non-Operator(s).

1. Defined Terms. All terms used in this Exhibit "H", but not defined herein, shall have the same meaning as such terms have in the Unit Operating Agreement to which this Exhibit "H" is attached. In addition to the terms defined in the Unit Operating Agreement, the following terms shall have the respective meanings set forth below:

1.1 MMBTU shall mean Million British Thermal Units. All references in this Exhibit "H" to quantity or volume shall refer to the number of MMBTU contained in the gas stream.

1.2 MCF shall mean Thousand Cubic Feet.

1.3 Underproduced Party shall mean any Party to the Unit Operating Agreement which, in any relevant time period described below, has taken less than its proportionate share of Gas produced from the Unitized Formation in the Unit Area.

1.4 Overproduced Party shall mean any Party to the Unit Operating Agreement which, in any relevant time period described below, has taken more than its proportionate

share of Gas produced from the Unitized Formation in the Unit Area.

1.5 Party or Parties, as used herein in Exhibit "H", shall mean any Party which is a signatory Party to the Unit Operating Agreement, or which has ratified or adopted the Unit Operating Agreement.

2. Ownership of Gas Production. Except as specifically set forth in this Exhibit "H", it is the intent of the Parties that each Party shall have the right to take in kind or separately dispose of its proportionate share of gas produced from the Unitized Formation in the Unit Area to the same extent and as provided in the Unit Operating Agreement.

3. Operator's Duties in Respect of Gas Production; Deliverability and Other Tests, Receipt and Disbursement of Proceeds.

Unit Operator shall control the gas production and be responsible for administering the provisions of this Exhibit "H" and shall use its commercially reasonable efforts to deliver or cause to be delivered gas to the Parties' respective gas purchasers or transporters as may be required in order to balance the accounts of the Parties in accordance with the provisions contained herein. For the purposes of this Exhibit "H", Unit Operator shall balance the accounts of the Parties based upon the number of MMBTU actually contained in the Gas and delivered at the outlet of lease equipment for each Parties' account regardless of whether sales of such Gas are made on a wet or dry basis.

4. Balancing of Production Accounts.

4.1 If at any time a Party or such Party's purchaser or transporter of Gas is not marketing or taking its full share of Gas, the remaining Parties shall have the right, but not the obligation, to produce, take, sell and deliver (in addition to the full share of gas to which such Parties are otherwise entitled) all or any portion of the gas attributable to such Party. In the event there is more than one Party taking or marketing such gas, each Party shall be entitled to such Gas in the ratio that such Party's interest in production bears to the total interest in production of all Parties then taking or marketing such Gas.

4.2 Any Underproduced Party, upon giving 30 days notice in writing to Unit Operator, shall be entitled, on a monthly basis, to produce, take, sell and deliver (in addition to the full share of Gas to which such Party is otherwise entitled) a quantity of Gas ("make-up gas") equal to 50% of the total share of Gas attributable to all Parties having cumulative overproduction with respect to such Gas; provided, however, that notwithstanding anything to the contrary contained herein:

4.2.1 an Underproduced Party shall never be entitled to any make up Gas during the months of December, January, and February.

4.2.2 an Overproduced Party (a Party who has taken a greater percentage of the MMBTU of Gas

attributable to its interest than the percentage to which such Party is entitled) shall never be obligated to reduce its takes to less than 50% of the quantity to which such Party is otherwise entitled, and

4.2.3 an Underproduced Party which is a Non-Consenting Party and is not then entitled to participate in any operation in respect of the Unit Operating Agreement shall not be entitled to take any Gas.

4.3 If there is more than one Underproduced Party desiring make-up gas and such Underproduced Party is entitled to take make-up gas as provided in Section 4.2, each such Underproduced Party shall be entitled to such make-up gas in the ratio that such Underproduced Party's interest in production bears to the total interest in production of all Parties then desiring make-up gas. Any portion of the applicable make-up gas to which an Underproduced Party is entitled and which is not taken by such Underproduced Party may be taken by any other Underproduced Party which is entitled to take make-up gas under the provisions of Section 4.2.

4.4 If there is more than one Overproduced Party required to furnish make-up gas, each such Overproduced Party shall furnish such make-up gas in the ratio that such Overproduced Party's interest in production bears to the total interest in production of all Parties then required

to furnish makeup gas. Except as provided in 4.5 below, each Overproduced Party shall be entitled, on a monthly basis, to take its full share of Gas less its share of the applicable make-up gas then being produced.

- 4.5 If, in the good faith opinion of Unit Operator, Unit Operator believes that an Overproduced Party has recovered 100% of such Overproduced Party's share of the recoverable reserves such Overproduced Party (upon being notified in writing of such fact by Operator) shall cease taking Gas and the remaining Parties shall be entitled to take 100% of such production until the accounts of the Parties are balanced, at which time thereafter such Overproduced Party shall again have the right to take its share of the remaining production, if any, in accordance with the provisions contained herein. Notwithstanding anything to the contrary contained herein, if continued production by an Overproduced Party after such Overproduced Party has recovered its full share of the recoverable reserves is necessary for lease maintenance purposes or if continued production by such Overproduced Party is permitted by those Parties owning a majority of interest in the Unit Area (excluding the interest of the Overproduced Party), then such Overproduced Party may continue to take Gas in excess of such Overproduced Party's full share of the recoverable reserves in accordance with the provision contained herein.

5. Balancing Upon Depletion. If Gas production ceases, Unit Operator shall determine within 90 days of last production the final accounting of underproduction and overproduction between the Underproduced Parties and the Overproduced Parties. Within 30 days of receipt of such final accounting, each Overproduced Party shall remit to Unit Operator (for disbursement to the Underproduced Parties) a sum of money (which sum shall not include interest) equal to the amount actually received by such Overproduced Party for such Overproduced Party's respective share of overproduction (which payment shall be calculated in the order of accrual), less applicable taxes and royalties actually paid by such overproduced Party. Within 30 days of receipt of any such remittance by Unit Operator from an Overproduced Party, Unit Operator shall disburse such funds to the Underproduced Parties in accordance with the final accounting. Unit Operator assumes no liability of whatsoever nature or kind with respect to any such payment, it being the intent of the Parties that each Overproduced Party shall be solely responsible for reimbursing each Underproduced Party for such Underproduced Party's respective share of overproduction taken by such Overproduced Party in accordance with the provisions contained herein. In determining the amount of overproduction for which settlement is due, production taken during any month by an Underproduced Party in excess of such Underproduced Party's share shall be treated as make-up gas and shall be applied to reduce prior deficits in the order of accrual of

such deficits. If any Overproduced Party took Gas in kind for its own use or sold Gas to an affiliate, then such Overproduced Party and the Underproduced Party(ies) agree to negotiate in good faith a mutually acceptable settlement with respect to such Gas based upon the market value of such Gas at the time it was produced. In the event refunds are later required by any governmental authority, each Party shall be accountable for its respective share of such refunds as finally balanced hereunder.

6. Nominations. By the 25th day of each month, each Party shall provide to Unit Operator such data as may be reasonably required by Unit Operator either to nominate for the next month such Party's respective share of Gas to such Party's transporting pipeline or, if Unit Operator is not nominating such Party's Gas, to inform Unit Operator of the manner in which to dispatch such Party's Gas. Unit Operator shall not be liable to any fees or penalties associated with imbalances charged by any pipeline to any Underproduced Party or Overproduced Party.
7. Statements. After commencement of production, each Party taking Gas shall furnish Unit Operator (on or before the 25th day of the month following the month of production) with a statement of Gas taken (expressed in terms of both MCF and MMBTU). Within 20 days of the receipt of all such information, Unit Operator shall furnish each Party with a statement of the Gas balance between the Parties, and the total quantity delivered for each Party's account. Any error

or discrepancy in Unit Operator's monthly statement shall be promptly reported to Unit Operator and Unit Operator shall make a proper adjustment thereof within 30 days after final determination of the correct quantities involved; provided, however, that if no errors or discrepancies are reported to Unit Operator within two years from the date of any statement, such statement shall be conclusively deemed to be correct.

8. Payment of Taxes. Each Party producing or delivering Gas to a purchaser shall pay or cause to be paid any and all production, severance, utility, sales, excise, or other taxes due on such Gas.
9. Operating Costs and Expenses. The operating costs and expenses shall be borne as provided in the Unit Operating Agreement, regardless of whether all Parties are selling or using Gas or whether the sales and use of each are in proportion to their respective interests in such Gas.
10. Payment of Burdens. At all times while Gas is produced from the Unit Area, each Party shall make appropriate settlement for all royalties, overriding royalties and all other payments out of or in lieu of production for which such Party is and any party which by reason of the Overproduced Party selling more than its share of Gas is an Underproduced Party, are responsible as though such Parties were taking or delivering to a purchaser such Parties' full shares, and such Parties' full share only, of such Gas production.
11. Application of Exhibit "H". The provisions of this Exhibit "H" shall be separately applicable and shall constitute a



separate agreement with respect to Gas produced from the Unit Area.

12. Term. This Exhibit "H" shall terminate upon the termination of the Unit Operating Agreement; provided, however, that if the accounts of the Parties have not been settled in accordance with the provisions contained herein, this Exhibit "H" shall continue for so long as required thereafter to permit the full settlement of all accounts of the Parties.
13. Unit Operator's Liability. Except as otherwise provided herein, Unit Operator is authorized to administer the provisions of this Exhibit "H", but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Unit Operator's duties hereunder except such as may result from Unit Operator's gross negligence or willful misconduct.
14. Successors and Assigns. The terms, covenants, and conditions of this Exhibit "H" shall be binding upon and shall inure to the benefit of the Parties and to their respective successors-in-title and assigns, and may be assigned in whole or in part from time to time, to the same extent as interests in the Unit Area may be assigned; provided, however, that (1) any such assignment shall be subject to this Exhibit "H", (2) the successor-in-title or assignee shall acquire such interest subject to any overproduction and/or underproduction imbalances existing at such time and (3) no such assignment shall relieve the Party assignor from any obligation to the other Parties with respect to any overproduction taken by such

Party assignor prior to such assignment.

15. Liquefiable Hydrocarbons Not Covered Under Exhibit "H". The Parties shall share proportionately in and own all liquid hydrocarbons recovered with the Gas by lease equipment in accordance with their respective interests.
16. Federal Income Tax. The Working Interest Owners agree to adopt as their method of accounting under the terms of this Agreement the "cumulative gas balancing method" (as defined in proposed regulation §1.761-2 (1992) of the Internal Revenue Code of 1986) or a comparable method having substantially the same effect under any subsequent proposed, temporary, or final regulation.
17. Conflict. If a conflict exists between the terms of this Exhibit "H" and the terms of any Gas sales contract covering the Unit Area entered into by any Party, the terms of this Exhibit "H" shall govern.

APPROVAL OF PLAN OF UNITIZATION  
QUERECHO PLAINS QUEEN ASSOCIATED SAND UNIT

LEA COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, an instrument entitled "Plan of Unitization, Querecho Plains Queen Associated Sand Unit, Lea County, New Mexico", provides that any owner of a Royalty Interest or Working Interest, or both, in and to any Tract identified therein may approve such plan by signing an instrument of approval;

NOW, THEREFOR, the undersigned owners of Royalty Interest or the undersigned owners of Working Interest, or owners of both Working Interest and Royalty Interest, hereby approve such plan.

The undersigned owners of Royalty Interest or Working Interest or both Working Interest and Royalty Interest hereby acknowledge receipt of a full and true copy of such plan.

IN WITNESS WHEREOF, each of the undersigned has executed this instrument on the date set forth opposite his signature.

DATED THIS 10th day of January, 1994

Attest by secretary, with Corporate Seal, if a Corporation, or  
Witness if an individual

UNIT OPERATOR

OPERATOR:

MEWBOURNE OIL COMPANY

DATE: 1/10/94

ATTEST



By: James Allen Brinson

WORKING INTEREST OWNERS

DATE: \_\_\_\_\_

ANADARKO PETROLEUM CORPORATION

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ASSOCIATED PARTNERS LTD 1986

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

CARROLL BELLAH

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

PHILIP R. BISHOP

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

LEWIS BURLESON

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

GENE FULMER

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

RAY FULMER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEBRA JOHNSON HEAD

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HILLSIDE SYNDICATE

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

DEMAR JOHNSON HOPSON

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JACK HUFF

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

F. KIRK JOHNSON III

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

JOYRAN CORP.

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

HAROLD LOBLEY

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

MANSUR TRUST

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

ANN H. McREYNOLDS

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

CURTIS W. MEWBOURNE

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

MEWBOURNE OIL COMPANY

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

MURJO OIL & ROYALTY CO.

By: \_\_\_\_\_

DATE: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

OXY USA INC.

By: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS:

\_\_\_\_\_

\_\_\_\_\_

CLARENCE W. & FREIDA T. STUMHOFFER

By: \_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

PEGGY S. TAYLOR

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

TOOMBS TRUST

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

DATE: \_\_\_\_\_

C. DANIEL WALKER

WITNESS:

\_\_\_\_\_

By: \_\_\_\_\_

ROYALTY OWNERS

<u>Attest or Witness</u>	<u>Date Signed</u>	<u>Name</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

STATE OF TEXAS       §

COUNTY OF SMITH     §

The foregoing instrument was acknowledged before me this 15TH  
day of JANUARY, 1994, by James Allen Brinson, as  
Attorney-in-Fact of Mewbourne Oil Company, a Delaware Corporation.

Sue Hearon  
Notary Public, State of Texas

My Commission Expires: \_\_\_\_\_



SUE HEARON  
NOTARY PUBLIC  
State of Texas  
My Comm. Exp. 11-30-97



STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for  
\_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR CORPORATION)  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_, for  
\_\_\_\_\_, a \_\_\_\_\_ Corporation.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_

STATE OF \_\_\_\_\_ § (ACKNOWLEDGMENT FOR INDIVIDUAL)

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_\_  
day of \_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public

My Commission Expires:\_\_\_\_\_