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\*NOT LICENSED IN NEW MEXICO  
\*FORMERLY COMPRISING THE FIRM OF  
CULTON, MORGAN, BRITAIN & WHITE, P.C.

May 9, 1995

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MAY 9 1995

Oil Conservation Division

## HAND-DELIVERY

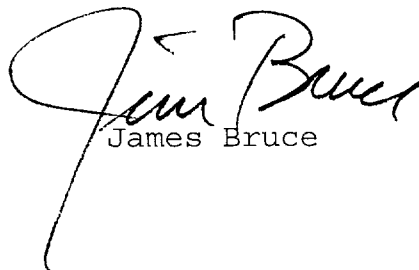
Florene Davidson  
Oil Conservation Division  
State Land Office Building  
Santa Fe, NM 87503

Dear Florene:

Enclosed are an original and two copies each of an application for statutory unitization and an application for an enhanced recovery project/certification for the enhanced oil recovery tax rate, filed on behalf of Exxon Corporation. Proposed advertisements are also enclosed for each case. Please set this matter for the June 1, 1995 Examiner Hearing.

Very truly yours,

HINKLE, COX, EATON, COFFIELD  
& HENSLEY, P.L.L.C., Ltd., Co.

  
James Bruce

Enclosures

JB/sp

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PROPOSED ADVERTISEMENT

Oil Conservation Division

Case 11298: Application of Exxon Corporation for statutory unitization and approval of 18 unorthodox oil well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the designated and Undesignated Avalon-Delaware Pool underlying its proposed Avalon Delaware Unit Area encompassing some 2140.14-acres, more or less, of Federal, State, and Fee lands comprising all or parts of Sections 29, 30, 31, and 32, Township 20 South, Range 28 East; portions of Sections 25 and 26, Township 20 South, Range 27 East; and portions of Sections 4, 5, and 6, Township 21 South, Range 27 East. Among the matters to be considered at the hearing, pursuant to the "New Mexico Statutory Unitization Act," Sections 70-7-1 et. seq., NMSA, will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable and equitable allocation of production and costs of production, including capital investments, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area of their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal or substitution of the unit operator, and time of commencement and termination of unit operations. Applicant

also requests approval of eighteen (18) unorthodox oil well locations for producing wells to be drilled within said Unit Area. Said unit area is centered approximately \_\_ miles

\_\_\_\_\_.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF EXXON CORPORATION  
FOR STATUTORY UNITIZATION AND FOR  
APPROVAL OF 18 UNORTHODOX OIL  
WELL LOCATIONS, EDDY COUNTY,  
NEW MEXICO.

RECEIVED 11298  
MAY 9 1995

APPLICATION Oil Conservation Division

Exxon Corporation ("Exxon") hereby applies for an order (i) approving statutory unitization of the area and formation known as the Avalon Delaware Unit, Eddy County, New Mexico, and approving the Unit Agreement and Unit Operating Agreement for said Unit, and (ii) approving 18 unorthodox oil well locations for proposed producing wells within the Unit, and in support thereof, states:

1. Exxon is engaged in the business of, among other things, producing and selling oil and gas as defined by the New Mexico Statutory Unitization Act (N.M. Stat. Ann. § 70-7-1 through 70-7-21 (1987 Repl.)), hereinafter referred to as "the Act").

2. The proposed area for which application is made for unitized operations pursuant to the Act is known as the Avalon Delaware Unit ("the Unit Area"), which consists of 2140.14 acres, more or less, of federal, state, and fee lands in Eddy County, New Mexico. A map of the Unit Area and a designation of the lands therein are set forth in Exhibits "A" and "B" attached to the Unit Agreement described below.

3. The formation for which application is made ("the Unitized Formation") is the subsurface portion of the Unit Area known as the Delaware Mountain Group (Avalon-Delaware Pool), and the vertical limits thereof are found in the interval between 100

feet above the base of the Goat Seep Reef to the top of the Bone Spring formation, and including, but not limited to, the Cherry Canyon and Brushy Canyon formations, as identified by the Compensated Neutron/Lithodensity/Gamma Ray log dated September 14, 1990, run in the Exxon Yates "C" Federal Well No. 36, located 1305 feet from the North and the East lines (Unit A) of Section 31, Township 20 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, with the top of the Unitized Formation being found in said well at a depth of 2,378 feet below the surface (869 feet above sea level) and the base of the Unitized Formation being found at a depth of 4,880 feet below the surface (1,633 feet below sea level). The Unitized Formation includes all subsurface points throughout the Unit Area correlative to the above-identified depths.

4. The portion of the Unitized Formation included within the Unit Area has been reasonably defined by development.

5. Exxon proposes to institute an improved recovery project for the recovery of oil and related casinghead gas from the Unitized Formation within the Unit Area, as described in a related application filed simultaneously herewith.

6. By converting certain presently producing wells into injection wells, and by drilling additional injection wells, Exxon proposes to inject fluids into the Unitized Formation in the Avalon Delaware Unit. The fluids to be used for injection are produced water and additional source water.

7. The proposed plan of unitization is embodied in the Unit Agreement, a true copy of which is attached hereto as Exhibit A, and the plan is fair, reasonable, and equitable.

8. The proposed operating plan, covering the manner in which the Unit will be supervised and managed and costs allocated and paid, is embodied in the Unit Operating Agreement, a true copy of which is attached hereto as Exhibit B.

9. Exxon projects that the unitized management, operation, and further development of the Unitized Formation will increase production by approximately 8,200,000 barrels of oil, will improve the oil producing rate, and will extend the producing life of the Unitized Formation beyond the year 2030. It is therefore evident that the unitized management, operation, and further development of the Unitized Formation is reasonably necessary in order to effectively carry on improved recovery operations to substantially increase the ultimate recovery of oil from the Unitized Formation within the Unit Area.

Potential for a carbon dioxide project in the Unit Area also exists, and was considered in the unitization and waterflood project design.

10. The method of operation which is proposed in the Unit Operating Agreement is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil from the Unitized Formation than would otherwise be recovered.

11. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas to be recovered thereby, plus a reasonable profit.

12. The proposed unitization and the adoption of the methods of operation embodied in the Unit Operating Agreement will benefit the working interest owners and royalty owners of the oil and gas rights within the Unitized Formation of the Unit Area.

13. Exxon has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

14. The participation formula contained in the Unit Agreement allocates the produced and saved Unitized Substances to the separately owned tracts in the Unit Area on a fair, reasonable, and equitable basis, and protects the correlative rights of all owners of interests within the Unit Area.

15. Statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights.

16. As part of the unit operations, Exxon intends to drill 18 producing wells at unorthodox oil well locations, as follows:

NAME	SECTION	LOCATION	WELL #
Avalon Delaware Unit	31-20S-28E	183FNL&1397FWL	1812
Avalon Delaware Unit	31-20S-28E	123FNL&2673FEL	1814
Avalon Delaware Unit	31-20S-28E	46FNL&1402FEL	1816
Avalon Delaware Unit	31-20S-28E	1386FNL&1314FWL	2012
Avalon Delaware Unit	31-20S-28E	1335FNL&2681FWL	2014
Avalon Delaware Unit	31-20S-28E	1320FNL&56FEL	2018
Avalon Delaware Unit	31-20S-28E	2600FSL&1322FWL	2212
Avalon Delaware Unit	31-20S-28E	2699FSL&2549FWL	2214
Avalon Delaware Unit	31-20S-28E	2564FNL&1375FEL	2216

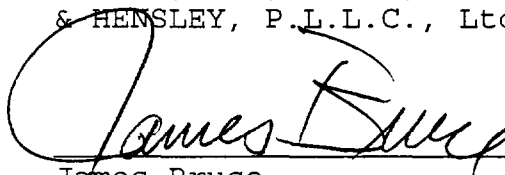
Avalon Delaware Unit	31-20S-28E	2648FSL&73FEL	2218
Avalon Delaware Unit	31-20S-28E	1337FSL&1324FWL	2412
Avalon Delaware Unit	31-20S-28E	1320FSL&94FEL	2418
Avalon Delaware Unit	32-20S-28E	2648FSL&1128FWL	2220
Avalon Delaware Unit	32-20S-28E	1323FSL&1107FWL	2420
Avalon Delaware Unit	30-20S-28E	2310FSL&1485FWL	1412
Avalon Delaware Unit	30-20S-28E	992FSL&1489FWL	1612
Avalon Delaware Unit	30-20S-28E	1046FSL&2677FWL	1614
Avalon Delaware Unit	30-20S-28E	1662FNL&1495FWL	1212

Exxon requests the Division to approve the above well locations in the Order approving unitization. After drilling and a short production phase, these wells will be converted to injection.

WHEREFORE, Exxon requests that this application be set for hearing on June 1, 1995, and that thereafter the Division enter its order approving the Unit Agreement and Unit Operating Agreement, providing for the unitized management, operation, and further development of the Unitized Formation and the Unit Area in accordance with the Act, and approving the unorthodox oil well locations requested herein.

Respectfully submitted,

HINKLE, COX, EATON, COFFIELD  
& HENSLEY, P.L.L.C., Ltd., Co.



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Post Office Box 2068  
Santa Fe, New Mexico 87504-2068  
(505) 982-4554

Attorneys for Exxon Corporation



**IMPROVED RECOVERY UNIT  
UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE**

**AVALON (DELAWARE) UNIT AREA**

**EDDY COUNTY, NEW MEXICO**

**NO. \_\_\_\_\_**



1  
2  
3  
4 UNIT AGREEMENT  
5 FOR THE DEVELOPMENT AND OPERATION  
6 OF THE  
7 AVALON (DELAWARE) UNIT  
8 EDDY COUNTY, NEW MEXICO  
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STATE/FEDERAL/FEE

**UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
AVALON (DELAWARE) UNIT  
EDDY COUNTY, NEW MEXICO**

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

1           WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act  
2 of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of  
3 1961) (Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent to and  
4 approve the development or operation of State lands under agreements made by lessees of State land  
5 jointly or severally with other lessees where such agreements provide for the unit operation or  
6 development of part of or all of any oil or gas pool, field or area; and

7           WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act  
8 of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of  
9 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) to amend with the  
10 approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas  
11 lease embracing State lands so that the length of the term of said lease may coincide with the term of  
12 such agreements for the unit operation and development of part or all of any oil or gas pool, field or area;  
13 and

14           WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as  
15 the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter  
16 70, Article 2, Section 1 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the  
17 conservation provisions hereof; and

18           WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of  
19 New Mexico is authorized by law (Chapter 70, 7, N.M.S. 1978 Annotated) to approve this Agreement and  
20 the conservation provisions hereof; and

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

23  
24           WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste,  
25 and secure other benefits obtainable through development and operation of the area subject to this  
26 Agreement under the terms, conditions, and limitations herein set forth;

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

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

12 SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following  
13 terms and expressions as used herein shall mean:

14 (a) "Unit Area" is defined as those lands depicted on Exhibit "A" and described in Exhibit "B"  
15 hereof, and such land is hereby designated and recognized as constituting the Unit Area,  
16 containing 2,140.14 acres, more or less, in Eddy County, New Mexico.

17 (b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New  
18 Mexico.

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

21 (d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has  
22 been delegated the required authority to act on behalf of the BLM.

23 (e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his  
24 duly authorized delegate.

25 (f) "Department" is defined as the Department of the Interior of the United States of America.

26 (g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction



1 over the federal lands included in the Unit Area.

2 (h) "Unitized Formation" shall mean that interval underlying the Unit Area described as, the  
3 Delaware Mountain Group, extending from 100 feet above the base of the Goat Seep Reef to the  
4 top of the Bone Spring formation and including, but not limited to, the Cherry Canyon and Brushy  
5 Canyon Formations, as identified by the Compensated Neutron/Lithodensity/Gamma Ray log  
6 dated September 14, 1990 run in the Exxon Yates "C" Federal # 36, located ~~in the center of the~~ <sup>1305' FNL +</sup>  
7 ~~Northwest Quarter of~~ <sup>1305' FEL</sup> Section 31, Township 20 south, Range 28 East, Eddy County, New Mexico,  
8 with the top of the Unitized Interval being found in said well at a depth of 2,378 feet below the  
9 surface (869 feet above sea level) and the base of the Unitized Interval being found at a depth of  
10 4,880 feet below the surface (1,633 feet below sea level), or stratigraphic equivalents, thereof.

11 (i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas,  
12 condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other  
13 than Outside Substances, within and produced from the Unitized Formation.

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

15 (k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "C " for  
16 allocating Unitized Substances to a Tract under this agreement.

17 (l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest  
18 of a Working Interest Owner in each Tract by the Tract Participation of such Tract provided that  
19 Unit Participation shall be subject to adjustment as set out in Articles 12 and 13 of Unit Operating  
20 Agreement.

21 (m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether  
22 held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating  
23 agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear,  
24 either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing  
25 and producing the Unitized Substances from the Unitized Formation and operations thereof  
26 hereunder. However, it is expressly understood and agreed that any royalty interest created out of

1 a working interest subsequent to the execution of this Agreement by the owner of the working  
2 interest shall continue to be subject to such working interest burdens and obligations.

3 (n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried  
4 working interest, holding an interest in Unitized Substances by virtue of a lease, operating  
5 agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other  
6 instrument creating a Working Interest in another shall be regarded as a Working Interest Owner  
7 to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner  
8 with respect to his remaining one-eighth (1/8) interest therein.

9 (o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in, or right to receive  
10 a portion of, the Unitized Substances or the proceeds thereof and includes the royalty interest  
11 reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment  
12 interest, net profit contracts, or any other payment or burden which does not carry with it the right  
13 to search for and produce unitized substances.

14 (p) "Royalty Owner" is the owner of a Royalty Interest.

15 (q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator  
16 and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit  
17 Operating Agreement, of the Avalon (Delaware) Unit, Eddy County, New Mexico".

18 (r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for  
19 the production of Unitized Substances, or to share in the production so obtained or the proceeds  
20 thereof.

21 (s) "Outside Substances" is any substance, including but not limited to water, carbon dioxide  
22 (CO<sub>2</sub>), nitrogen, propane, butane, or other substances used for the operation of the property,  
23 obtained from any source other than the Unitized Formation and injected into the Unitized  
24 Formation.

25 (t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform  
26 the duties of Unit Operator until the selection and qualification of a successor Unit Operator as

provided for in Section 7 hereof.

(u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.

(v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

(w) "Improved Recovery Project" is work undertaken for the purpose of effecting additional recovery of Unitized Substances, preventing waste and/or conserving natural resources.

Improved Recovery Project includes, but is not limited to, those processes and classes of processes which are sometimes referred to as waterflooding, pressure maintenance, enhanced recovery, secondary recovery, tertiary recovery, and post-primary recovery operations.

(x) "Unit Equipment" is 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.

(y) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations. Expenses incurred for operations prior to the Effective Date shall not be considered Unit Expense, even if billed after the Effective Date.

(z) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area. Exhibit "C" attached hereto is a schedule showing Tract Participation of each Tract. Exhibit "D" attached hereto is a schedule showing reserves by Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said

map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other 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 for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION AND CONTRACTION. When practicable, the above described Unit Area may, with the approval of the A.O. and Land Commissioner be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. 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, but provided further that, pursuant to Subsection (b), 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:

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

admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area, any adjustment of investment to be made due to such expansion, and other pertinent data. After negotiation (at a 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:

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

2. Deliver copies of said notice to Land Commissioner, 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

3. File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the second 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

1 to another.

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

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

14 Unit Operator shall have a lien upon interests of Working Interest Owners in the Unit Area to the extent  
15 provided in the Unit Operating Agreement.

16           SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the  
17 right to resign at any time, but such resignation shall not become effective so as to release Unit Operator  
18 from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period  
19 of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working  
20 Interest Owners, the Land Commissioner and the A.O. unless a new Unit Operator shall have taken over  
21 and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

22 The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder,  
23 be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more  
24 of the Unit Participation then in effect exclusive of the participation of the Working Interest Owner who is  
25 the Unit Operator, provided that Working Interest Owners voting for removal own at least ten (10) percent  
26 of total Unit Participation. Such removal shall be effective upon notice thereof to the Land Commissioner

1 and the A.O.

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

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

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

24 In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners  
25 having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail. If the Unit  
26 Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be

1 selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit  
2 Participation remaining after excluding the Unit Participation of Unit Operator so removed.

3       SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and  
4 expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned  
5 among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement.  
6 Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall  
7 be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in  
8 conformity with their underlying operating agreements, leases or other contracts and such other rights and  
9 obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the  
10 Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be  
11 deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator  
12 of any right or obligation established under this Agreement, and in case of any inconsistency or conflict  
13 between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any  
14 Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner  
15 and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

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

26       SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all



1 of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and  
2 that the object and purpose of this Agreement is to formulate and to put into effect an Improved Recovery  
3 Project. Unit Operator shall have the right to inject into the Unitized Formation any substances for an  
4 Improved Recovery Project in accordance with a plan of operation approved by the Working Interest  
5 Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain  
6 injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well  
7 or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of  
8 Operation may be revised as conditions may warrant.

9 The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division  
10 concurrently with the filing of the Unit Agreement for final approval. Said initial plan of operations and all  
11 revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division  
12 may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement  
13 and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall  
14 constitute the operating obligations of the Unit Operator under this Agreement for the period specified  
15 therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall  
16 submit for like approval a plan for an additional specified period of operations. After such operations are  
17 commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the  
18 obligations of the approved Plan of Operation.

19 Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit  
20 Operations for the Improved Recovery Project of Unitized Substances from the Unit Area within eighteen  
21 (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this  
22 Agreement shall terminate automatically as of the date of default.

23 SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights  
24 and interests, hereby grant to Unit Operator the right to free use of as much of the surface of the Unitized  
25 Land, including the water thereunder, as may be reasonably necessary for Unit Operations including the  
26 laying, operating, and replacing of all lines of any type and the construction and operation of all facilities

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

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

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

12 
$$\text{TRACT PARTICIPATION PERCENTAGE} = 25\% \cdot A/B + 50\% \cdot C/D + 25\% \cdot E/F$$

13 Where:

14 A= Tract's remaining primary reserves as of 1/1/93; see Exhibit D

15 B= Total remaining primary reserves as of 1/1/93= 1192.2 MBO

16 C= Tract's waterflood reserves; See Exhibit D

17 D = Total waterflood reserves= 8269.4 MBO

18 E = Tract's tertiary reserves; See Exhibit D

19 F = Total tertiary reserves= 39883.0 MBO

20 In the event less than all Tracts are included in the Unit on the Effective Date hereof, the Tract  
21 Participation shall be calculated on the basis of all Tracts so included rather than all Tracts in the Unit Area  
22 with appropriate charge to the reserve values shown for each tract in Exhibit "D".

23 SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date  
24 hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized  
25 Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common  
26 boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a

1 common boundary), and that otherwise qualify as follows:

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

6 (b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the  
7 Working Interest have become parties to this Agreement, and as to which Royalty Owners owning  
8 less than seventy-five percent (75%) of the Royalty Interest have become parties to this  
9 Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working  
10 Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in  
11 such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working  
12 Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in  
13 all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the inclusion  
14 of such tract.

15 (c) Each Tract as to which Working Interest Owners owning less than one hundred percent  
16 (100%) of the Working Interest have become parties to this Agreement, regardless of the  
17 percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working  
18 Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five  
19 percent (75%) of the remaining Working Interest in such Tract who have become parties to this  
20 Agreement have joined in a request for inclusion of such Tract, and have executed and delivered,  
21 or obligated themselves to execute and deliver an indemnity agreement indemnifying and  
22 agreeing to hold harmless the other owners of committed Working Interests, their successors and  
23 assigns, against all claims and demands that may be made by the owners of Working Interest in  
24 such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract;  
25 and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the  
26 Unit Participation in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted

1 in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion  
2 of such a Tract, the Tract Participation which would have been attributed to the nonsubscribing  
3 owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit  
4 Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have  
5 become parties to such agreements, and joined in the indemnity agreement, in proportion to their  
6 respective Working Interests in the Tract.

7 If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively  
8 committed to or made subject to this Agreement by qualifying as above provided, then such Tract or  
9 Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement  
10 for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which  
11 have been committed and made subject to this Agreement and are entitled to participate in Unitized  
12 Substances. Said schedule shall set forth opposite each such committed Tract the lease number or  
13 assignment number, the owner of record of the lease, and the percentage participation of such tract which  
14 shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above.  
15 This schedule of participation shall be revised Exhibit "C" and upon approval thereof by the Land  
16 Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of  
17 production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

18 SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced  
19 and saved (less, save and except any part of such Unitized Substances used in conformity with good  
20 operating practices on unitized land for drilling, operating, camp and other production or development  
21 purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the  
22 A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in  
23 accordance with the respective Tract Participation as set forth in the schedule of participation in Exhibit  
24 "C". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of  
25 whether it be more or less than the amount of the actual production of Unitized Substances from the well  
26 or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced

1 from such Tract.

2 The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the  
3 parties entitled to share in the production from such Tract in the same manner, in the same proportions,  
4 and upon the same conditions, as they would have participated and shared in the production from such  
5 Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal  
6 force and effect. Notwithstanding the foregoing, it is understood and agreed that the rights of the Working  
7 Interest Owners to their proportionate share of production hereunder shall be subject to certain provisions  
8 of the Unit Operating Agreement, including, but not limited to, the Gas Balancing Agreement which is  
9 Exhibit G to said Unit Operating Agreement. certain provisions dealing with the non-participation of  
10 Working Interest Owners, the failure of Working Interest Owners to pay their share of Unit Expense, and  
11 with certain pre-existing Agreements among the Working Interest Owners.

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

14 If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels  
15 or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract  
16 Participation shall in the absence of a recordable instrument executed by all owners in such Tract and  
17 furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in  
18 proportion to the number of surface acres in each.

19 SECTION 15.B. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract shall be  
20 allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears  
21 to the total of the Tract Participation of all Tracts not previously allocated the total number of barrels of  
22 crude oil allocable to these Tracts out of unit production in accordance with the Tract Participation of such  
23 Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract,  
24 when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it,  
25 shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in  
26 accordance with its Tract Participation.

1           SECTION 15.C. EXCESS IMPUTED STRIPPER CRUDE OIL. Each Tract shall be allocated any  
2 excess imputed stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract  
3 Participation of all Tracts not previously allocated the total number of crude oil barrels allocable to these  
4 Tracts out of unit production in accordance with the Tract Participation of such Tracts; provided, however,  
5 that excess imputed stripper crude oil allocated to each such Tract, when added to the total number of  
6 barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total  
7 number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

8           SECTION 15.D. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances  
9 allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the  
10 ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and  
11 operate all necessary facilities for that purpose within the Unitized Area, provided the same are so  
12 constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17  
13 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of  
14 the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest  
15 Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from  
16 the Unitized Formation then so long as such condition continues, Unit Operator, for the account and at the  
17 expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing  
18 the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such  
19 production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's  
20 share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the  
21 minimum needs of the industry under the circumstances, but in no event shall any such contract be for a  
22 period in excess of one year, and at not less than the prevailing market price in the area for like  
23 production, and the account of such Working Interest Owner shall be charged therewith as having  
24 received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit  
25 Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding  
26 the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest

Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

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

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "C" shall be revised by the Unit Operator; and the revised Exhibit "C", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If any outside substance obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in an Improved Recovery Project which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of such outside substance with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free, but not royalty free as to the Unitized Substances extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this

1 Agreement.

2           SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of  
3 America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the  
4 substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take  
5 in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make  
6 deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and  
7 regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners  
8 responsible therefor under existing contracts, laws and regulations on or before the last day of each month  
9 for Unitized Substances produced during the preceding calendar month; provided, however, that nothing  
10 herein contained shall operate to relieve the lessees of any land from their respective lease obligations for  
11 the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized  
12 Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to  
13 Federal leases committed hereto on which the royalty rate depends upon the daily average production per  
14 well, such average production shall be determined in accordance with the operating regulations pertaining  
15 to Federal leases as though the committed Tracts were included in a single consolidated lease.  
16 If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United  
17 States of America) in a Tract depends upon the average production per well or the average pipeline runs  
18 per well from such Tract during any period of time, then such production shall be determined from and  
19 after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such  
20 Tract during such period of time by the number of wells located thereon capable of producing Unitized  
21 Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of  
22 producing Unitized Substances on the Effective Date hereof shall be considered as having one such well  
23 for the purpose of this provision.  
24 All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners  
25 hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective  
26 Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.



1 With the exception of Federal and State requirements to the contrary, Working Interest Owners may use  
2 or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or  
3 other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit  
4 Operations.

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

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

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

25 It is expressly understood and agreed that the only wells deemed to be included in the Unit shall be those  
26 wells contributed to the Unit and accepted by the Unit, pursuant to the terms hereof or drilled for the Unit in

1 accordance with the terms hereof and the terms of the Unit Operating Agreement; and that the Unit  
2 Operator and the Working Interest Owners, as such, shall have no responsibility or liability, including  
3 plugging liability, for any wells not included in the Unit, or for any damages caused by a well that is  
4 included in the Unit to the extent that such damages were caused prior to the well's inclusion in the Unit.  
5 Nothing contained herein or in the Unit Operating Agreement shall result in the Unit Operator or the  
6 Working Interest Owners being liable for the cleanup of any wastes, or for any other cleanup or  
7 restoration, except to the extent such cleanup or restoration is required as a result of Unit Operations.

8       SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to  
9 prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.  
10 The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner,  
11 is hereby empowered to enter into a borderline agreement or agreements with working interest owners of  
12 adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum  
13 economic recovery, conservation purposes and proper protection of the parties and interest affected.

14       SECTION 21. LOSS OF TITLE. In the event title to 100% of Working Interest and Royalty  
15 Interest in and to any Tract of unitized land shall fail and the true owner cannot be induced to join in this  
16 Agreement, such Tract shall be automatically regarded as not committed hereto, and there shall be such  
17 readjustment of future costs and benefits as may be required on account of the loss of such title. In the  
18 event of a dispute as to title to any Royalty, Working Interest, or other interests subject thereto, payment  
19 or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled;  
20 provided, that, as to State or Federal lands or leases, no payments of funds due the United States or the  
21 State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land  
22 Commissioner (as the case may be) to be held as unearned money pending final settlement of the title  
23 dispute, and then applied as earned or returned in accordance with such final settlement.

24 If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized  
25 Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners  
26 shall either:

1 (a) require that the party to whom such Unitized Substance are delivered or to whom the proceeds  
2 thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title  
3 or right of such party fails in whole or in part, or

4 (b) withhold and market the portion of Unitized Substances with respect to which title or right is in  
5 dispute, and impound the proceeds thereof until such time as the title or right thereto is  
6 established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction  
7 of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party  
8 rightfully entitled thereto.

9 Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest  
10 Owners against any and all claims by any party against the interest attributed to such Working Interest  
11 Owner on Exhibit "B". Unit Operator as such is relieved from any responsibility for any defect or failure of  
12 any title hereunder.

13 SECTION 22. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms,  
14 conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling,  
15 development or operation for oil or gas on lands committed to this Agreement are hereby expressly  
16 modified and amended to the extent necessary to make the same conform to the provisions hereof, but  
17 otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and  
18 the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their  
19 duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental,  
20 minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the  
21 regulations in respect thereto to conform said requirements to the provisions of this Agreement.

22 Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly  
23 modified in accordance with the following:

24 (a) The development and operation of lands subject to this Agreement under the terms hereof  
25 shall be deemed full performance of all obligations for development and operation with respect to  
26 each Tract subject to this Agreement, regardless of whether there is any development of any

1 Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement  
2 or other contract by and between the parties hereto, or their respective predecessors in interest,  
3 or any of them.

4 (b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to  
5 be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by  
6 reason of failure to drill or produce wells situated on the land therein embraced.

7 (c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or  
8 consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be  
9 deemed to constitute such suspension pursuant to such direction or consent as to each Tract  
10 within the Unitized Area.

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

15 (e) Any lease embracing lands of the State of New Mexico which is made subject to this  
16 Agreement shall continue in force beyond the term provided therein as to the lands committed  
17 hereto until the termination hereof.

18 (f) Any lease embracing lands of the State of New Mexico having only a portion of its land  
19 committed hereto shall be segregated as to that portion committed and that not committed, and  
20 the terms of such lease shall apply separately to such segregated portions commencing as of the  
21 Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this  
22 Agreement to the contrary, such lease (including both segregated portions) shall continue in full  
23 force and effect beyond the term provided therein as to all lands embraced in such lease if oil or  
24 gas is, or has heretofore been discovered in paying quantities on some part of the lands  
25 embraced in such lease committed to this Agreement or, so long as a portion of the Unitized  
26 Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the

1 portion of the lands covered by such lease committed to this Agreement, or, at any time during the  
2 term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the  
3 Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on  
4 any part of the lands embraced in such lease, then the same as to all lands embraced therein  
5 shall remain in full force and effect so long as such operations are diligently prosecuted, and if  
6 they result in the production of oil or gas, said lease shall continue in full force and effect as to all  
7 of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being  
8 produced from any portion of said lands.

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

18 SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be  
19 covenants running with the land with respect to the interest of the parties hereto and their successors in  
20 interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases  
21 subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations  
22 hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any  
23 Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar  
24 month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the  
25 recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall  
26 be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month

1 after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy,  
2 of the recorded instrument or transfer.

3 SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each  
4 party who executes or ratifies it as of the date of execution or ratification by such party and shall become  
5 effective at 7:00 AM applicable local time on the first day of the calendar month next following the approval  
6 of this Agreement by the A.O., the Land Commissioner and the Division.

7 If this Agreement does not become effective on or before January 1, 1997, it shall ipso facto expire on  
8 said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior  
9 thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined

10 Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such  
11 Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a  
12 period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so  
13 extended and this Agreement does not become effective on or before the Extended Expiration Date, it  
14 shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

15 Unit Operator shall record within thirty (30) days after the Effective Date of this Agreement, in the office of  
16 the County Clerk of Eddy County, New Mexico, where a counterpart of this Agreement has been recorded,  
17 a certificate to the effect that this Agreement has become effective according to its terms and stating  
18 further the effective date.

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

23 This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working  
24 Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such  
25 Working Interest Owners determine that Unit Operations are no longer desirable, profitable, or in the  
26 interest of conservation. Upon approval, such termination shall be effective as of the first day of the month

1 after said Working Interest Owners' determination. Notice of any such termination shall be recorded by  
2 Unit Operator in the office of the County Clerk of Eddy County, New Mexico, within thirty (30) days of the  
3 effective date of termination.

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

7 Notwithstanding any other provisions in the leases unitized under this Agreement, Royalty Owners hereby  
8 grant Working Interest Owners a period of six months after termination of this Agreement in which to  
9 salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with  
10 Unit Operations.

11 SECTION 25. RATE OF PROSPECTING, DEVELOPMENT & PRODUCTION. All production  
12 and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly  
13 authorized person or regulatory body under any Federal or State Statute. The A.O. is hereby vested with  
14 authority to alter or modify from time to time, in his discretion, the rate of prospecting and development  
15 and within the limits made or fixed by the Division to alter or modify the quantity and rate of production  
16 under this Agreement, such authority being hereby limited to alteration or modification in the public  
17 interest, the purpose thereof and the public interest to be served thereby to be stated in the order of  
18 alteration or modification; provided, further, that no such alteration or modification shall be effective as to  
19 any land of the State of New Mexico as to the rate of prospecting and development in the absence of the  
20 specific written approval thereof by the Land Commissioner and as to any lands in the State of New  
21 Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from  
22 such lands in the absence of specific written approval thereof by the Division.

23 Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and  
24 opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to  
25 administrative appeal before becoming final.

26 SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of

work under this 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.

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division or any other legally constructed authority, and to appeal from any order issued under the rules and regulations of any such authorities, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, 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.

SECTION 28. 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.

SECTION 29. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it will not resort to any action to partition the Unitized Land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized



1 Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment  
2 shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and  
3 lease equipment and personal property is hereby severed from the mineral estates affected by this  
4 Agreement, and it is agreed that any such equipment and personal property shall be and remain personal  
5 property of the Working Interest Owners for all purposes.

6 SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit  
7 Operator to commence or continue improved recovery operations or to operate on or produce Unitized  
8 Substances from any of the lands covered by this Agreement shall be suspended while, but only so long  
9 as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with  
10 such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or by any rule,  
11 regulation or order of a governmental agency, unavoidable accident, uncontrollable delays in  
12 transportation, inability to obtain necessary materials or equipment in open market, or other matters  
13 beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

14 SECTION 32. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty Owner, at  
15 any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in  
16 order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this  
17 Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the  
18 Unit Operating Agreement in order for such interest to be regarded as effectively committed to this  
19 Agreement.

20 Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this  
21 Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto  
22 upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for  
23 Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation  
24 as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to  
25 this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to  
26 the Unit Operating Agreement.

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

15 SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of  
16 counterparts, no one of which needs to be executed by all parties, and may be ratified or consented to by  
17 separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who  
18 have executed such a counterpart, ratification or consent hereto with the same force and effect as if all  
19 parties had signed the same document, and regardless of whether or not it is executed by all other parties  
20 owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement  
21 shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

22 SECTION 34. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as  
23 either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such  
24 party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit  
25 Operating Agreement.

26 SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of

1 any taxes levied against or measured by the amount or value of the Unitized Substances produced from  
2 the Unitized Land; provided, however, that if it is required or if it be determined that the Unit Operator or  
3 the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto,  
4 it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed  
5 therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their  
6 respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or  
7 to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee  
8 to pay such taxes.

9 SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto  
10 are intended to be several and not joint or collective. This Agreement is not intended to create, and shall  
11 not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability  
12 with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for  
13 its own obligation as herein provided.

14 SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a  
15 proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount  
16 of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date  
17 hereof. All such oil which has been produced in accordance with established allowables shall be and  
18 remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been  
19 formed; and the responsible Working Interest Owner shall promptly remove said oil from the Unitized  
20 Land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest  
21 Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in  
22 excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized  
23 Substances produced after Effective Date hereof.

24 If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the wells on  
25 that Tract and the amount of over-production has been sold or otherwise disposed of, such over-  
26 production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof

1 and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances  
2 allocated to such Tract.

3 SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall  
4 not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of  
5 Unitized Substances.

6 SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at  
7 least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five  
8 percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement  
9 in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement,  
10 Unit Operator may make application to the Division for statutory unitization of the uncommitted interests  
11 pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such  
12 application is made and statutory unitization is approved by the Division, then effective as of the date of  
13 the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement  
14 shall automatically be revised and/or amended in accordance with the following:

15 (1) Section 14 of this Agreement shall be revised by substituting for the entire said section  
16 the following:

17 SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date  
18 hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized  
19 Substances

20 (2) Section 24 of this Agreement shall be revised by substituting for the first three  
21 paragraphs of said section the following:

22 SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective at 7:00  
23 AM applicable local time on the first day of the calendar month next following the effective date  
24 of the Division's order approving statutory unitization upon the terms and conditions of this  
25 Agreement, as amended (if any amendment is necessary) to conform to the Division's order;  
26 approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the

1 recording by Unit Operator of this Agreement or notice thereof for record in the office of the  
2 County Clerk of Eddy County, New Mexico. Unit Operator shall not record this Agreement or  
3 notice thereof, and hence this Agreement shall not become effective, unless within ninety (90)  
4 days after the date all other prerequisites for effectiveness of this Agreement have been  
5 satisfied, such Agreement is approved by Working Interest Owners owning a combined Unit  
6 Participation of at least seventy-five percent (75 %) as to all Tracts within the Unit Area.  
7 Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for  
8 record in the office of the County Clerk of Eddy County, New Mexico, a certificate to the effect  
9 that this Agreement has become effective in accordance with its terms, therein identifying the  
10 Division's order approving statutory unitization and stating the Effective Date.

11 (3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects  
12 necessary to conform to the Division's order approving statutory unitization.

13 Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to  
14 conform said agreements to the Division's order approving statutory unitization shall be deemed to be  
15 hereby approved in writing by the parties hereto without any necessity for further approval by said parties,  
16 except as follows:

17 (a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's  
18 participation in the production of Unitized Substances, such Royalty Owner shall not be deemed  
19 to have hereby approved the amended agreement without the necessity of further approval in  
20 writing by said Royalty Owner; and

21 (b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of  
22 reducing any Working Interest Owner's participation in the production of Unitized Substances or  
23 increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner  
24 shall not be deemed to have hereby approved the amended agreements without the necessity of  
25 further approval in writing by said Working Interest Owner.  
26

Executed as of the day and year first above written.

EXXON CORPORATION

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

Attorney-in-Fact

Date of Execution:

\_\_\_\_\_

1  
2  
3  
4  
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8  
9  
10  
11  
12

STATE OF TEXAS        )

                              )ss.

COUNTY OF MIDLAND )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 19 \_\_\_\_\_, by \_\_\_\_\_, Attorney in Fact,  
for/of \_\_Exxon Corporation, a New Jersey\_\_ corporation , on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_

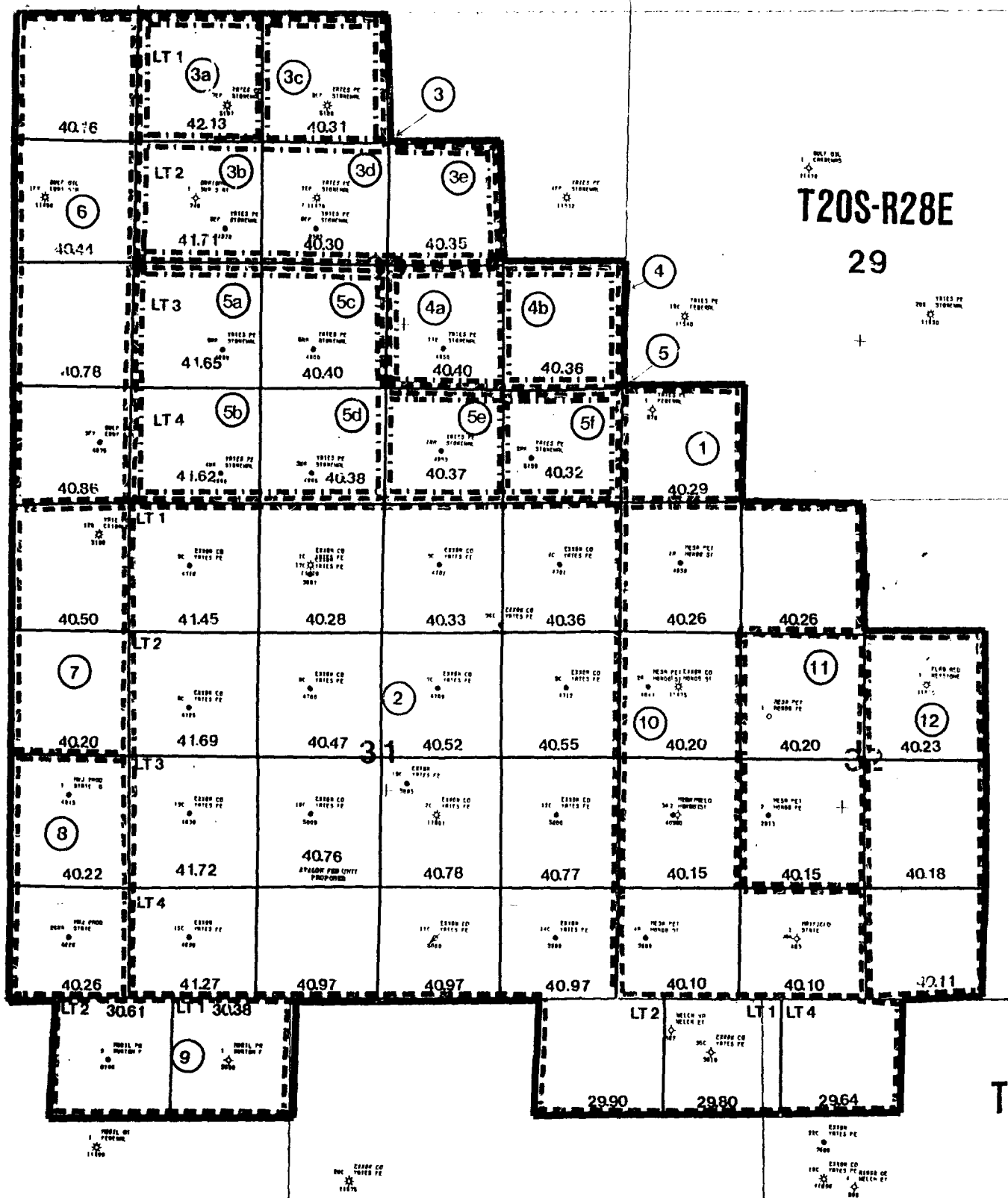




EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
1	T20S-R28E Section 29, SWSW	40.29	NMNM-17100 (Out of NMNM-0401842) HBP	U.S.A. - All (12.5% Royalty)	Mary H. Ard- 33.34 William A. Hudson II- 33.33% Edward R. Hudson, Jr.- 33.33%	Oryx Energy Company Pennzoil Exploration and Production Company Mark D. Wilson Robert Michael Boling and Janet Lynn Richardson Personal Representatives of the Estate of Robert E. Boling Mary L. Boling	3.056570 0.566210 2.000000 1.000000 1.000000 7.622780	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc. Claremont Corporation Mary H. Ard William A. Hudson II Edward R. Hudson, Jr. Exxon Corporation Kerr-McGee Corporation Rosalind Redfern John J. Redfern III, Indep. Exec. Est. of John J. Redfern, Jr. Martin Living Trust R. Ken Williams Edward H. Judson Devon Energy Corporation (NV) Ernie Bello Mrs. Francis B. Bunn Gendron Family Revocable Tr. David Goodnow Joseph R. Hodge Sanford J. Hodge, III E. G. Holden Testamentary Tr. Isaac A. Kawasaki Betsy H. Keller Charles Cline Moore Agnus Cluthe Oliver Tr. William B. Oliver Tr. Adolph P. Schuman Marri Tr. Space Building Corp. J. F. Van Vranken, Jr. Unit Petroleum Whiting Petroleum Corporation Tipperary Oil Corporation Hayes Partners I Yates Petroleum Corporation Yates Petroleum Corporation	9.444760 9.444760 3.148260 9.444760 0.724340 3.863200 3.863200 3.863200 6.250000 0.698350 0.338970 0.338970 0.482903 0.482903 0.482904 2.382880 0.024701 0.024701 0.037052 0.024701 0.004117 0.004117 0.012351 0.024701 0.012351 0.061753 0.024701 0.024701 0.024701 0.061753 0.024701 10.505708 2.818810 2.818810 8.052840 17.582240 2.576130
Total ORR								Total this sub-tract	100.000000

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
2	T20S-R28E Section 31: Lots 1,2,3,4 E/2W/2, E/2 T21S-R27E Section 4: Lot 4 (below 700 feet) Section 5: Lot 1 and Lot 2 (below 700 feet)	743.20	NMNM-01119 (Out of LC-083529)	U.S.A - All (12.5% Royalty)	Exxon Corporation- 100%	Murrell Abbott & } Clyde Abbott }	0 125000	Exxon Corporation	100 000000
						Chris Lee Tielz	0 062500		
						Ralph S. Harris II	0 062500		
						Robert S. Harris	0 062500		
						Robert L Haynie }	0 187500		
						Sue Haynie }			
						Len Mayer	0 187500		
						Patricia Nell Rigg	0 500000		
						Vanessa H. Shotwell	0 250000		
						SRT Trust No 1	0 500000		
						Vicki Walker	0 062500		
						Harvey E. Yates	1 000000		
						John Ashby Yates	1 000000		
						Lillie Mae Yates	0 500000		
						Marlin Yates III Est }			
						Lillie M. Yates Per Rep }	0 500000		
						Frank W. Yates Per Rep }			
						S. P. Yates Per Rep }			
						S. P. Yates	1 000000		
						Total ORR	6.000000		
Total Federal Acreage:		783.49							

3	T20S-R28E Section 30: Lots 1, 2 E/2NW, SWNE	204.80	K-5115-1 HBP	STATE OF NEW MEXICO ALL (12.5% Royalty)	Oryx Energy Company- 100%	Oryx Energy Company Pennzoil Exploration and Production Company Mark D. Wilson Robert Michael Boling and Janet Lynn Richardson Personal Representatives of the Estate of Robert E. Boling Mary L. Boling	3 493220 0 647100 2 000000 1 000000 1 000000		
						Total ORR	8 140320		
						Above As to Subtracts (a)-(d) incl			



EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Charles Cline Moore	0 019779
								Agnus Cluith Oliver Tr	0 007111
								William B Oliver Tr	0 007911
								Adolph P Schuman Marll Tr	0 007911
								Space Building Corp.	0 019779
								J F Van Vranken, Jr	0 007911
								Unit Petroleum	11 687116
								Whiting Petroleum Corporation	2 919802
								Tipperary Oil Corporation	2 919801
								Yates Petroleum Corporation	2 300800
								Total this sub-tract	100 000000
								Yates Petroleum Corporation	10 083120
								Yates Drilling Company	10 083120
								Abo Petroleum Corporation	3 361040
								Myco Industries, Inc	10 083120
								Claremont Corporation	0 773310
								Mary H Ard	4 124310
								William A Hudson II	4 124310
								Edward R Hudson, Jr	4 124310
								Exxon Corporation	4 124310
								Kerr-McGee Corporation	27 973850
								Rosalind Redfern	0 745550
								John J Redfern III, Indep Exec	0 361880
								Est of John J Redfern, Jr }	0 361880
								Martin Living Trust	
								R Ken Williams	0 515540
								Edward H Judson	0 515540
								Devon Energy Corporation (NV)	0 515540
								Ernie Bello	2 300800
								Mrs Francis B Bunn	0 007911
								Gendron Family Revocable Tr	0 011867
								David Goodnow	0 007911
								Joseph R Hodge	0 001318
								Sanford J Hodge, III	0 001318
								E. G. Holden Testamentary Tr	0 003956
								Isaac A. Kawasaki	0 007911
								Betsy H Keller	0 003956

3b (As to Lot 2)  
(Stonewall EP State #5)

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Charles Cline Moore	0 019779
								Agnus Cluthe Oliver Tr	0 007911
								William B Oliver Tr	0 007911
								Adolph P Schuman Martl Tr	0 007911
								Space Building Corp.	0 019779
								J F Van Vranken, Jr	0 007911
								Unit Petroleum	11 687116
								Whiting Petroleum Corporation	2 919802
								Tipperary Oil Corporation	2 919801
								Yates Petroleum Corporation	2 300800
								Total this sub-tract	100 000000

3c (As to NENW)  
(Stonewall EP State #6)

Yates Petroleum Corporation	10 083120
Yates Drilling Company	10 083120
Abo Petroleum Corporation	3 361040
Myco Industries, Inc	10 083120
Ernie Bello	0 026371
Mrs. Francis B Bunn	0 026371
Gendron Family Revocable Tr	0 039556
David Goodnow	0 026371
Joseph R. Hodge	0 004394
Sanford J Hodge, III	0 004394
E. G. Holden Testamentary Tr	0 013184
Isaac A. Kawasaki	0 026371
Betsy H Keller	0 013185
Charles Cline Moore	0 065927
Agnus Cluthe Oliver Tr	0 026371
William B Oliver Tr	0 026371
Adolph P. Schuman Martl Tr	0 026371
Space Building Corp.	0 065927
J F Van Vranken, Jr.	0 026371
Unit Petroleum	11 394842
Whiting Petroleum Corporation	2 919802
Tipperary Oil & Gas Corporation	2 919801
Claremont Corporation	0 773310
Mary H. Ard	4 124310
William A. Hudson II	4 124310
Edward R Hudson, Jr.	4 124310

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Trad NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Exxon Corporation	27 973850
								Kerr-McGee Corporation	0 745550
								Rosalind Redfern	0 361880
								John J. Redfern III, Indep Exec}	
								Est of John J Redfern, Jr }	
								Martin Living Trust	0 361880
								R Ken Williams	0 515540
								Edward H. Judson	0 515540
								Devon Energy Corporation (NV)	2 300800
								Yates Petroleum Corporation	2 300800
								-----	
								Total this sub-tract	100 000000
								Yates Petroleum Corporation	10 083120
								Yates Drilling Company	10 083120
								Abo Petroleum Corporation	3 361040
								Myco Industries, Inc	10 083120
								Ernie Bello	0 026371
								Mrs. Francis B Bunn	0 026371
								Gendron Family Revocable Tr	0 039556
								David Goodnow	0 026371
								Joseph R. Hodge	0 004394
								Sanford J Hodge, III	0 004394
								E. G. Holden Testamentary Tr	0 013184
								Isaac A. Kawasaki	0 026371
								Betsy H. Keller	0 013185
								Charles Cline Moore	0 065927
								Agnus Cluthe Oliver Tr	0 026371
								William B. Oliver Tr	0 026371
								Adolph P. Schuman Marlt Tr	0 026371
								Space Building Corp.	0 065927
								J. F. Van Vranken, Jr	0 026371
								Unit Petroleum	11 394842
								Whiting Petroleum Corporation	2 919802
								Tipperary Oil & Gas Corporation	2 919801
								Claremont Corporation	0 773310
								Mary H. Ard	4 124310
								William A. Hudson II	4 124310
								Edward R. Hudson, Jr.	4 124310

3d (As to SENW)  
(Stonewall EP State #8)

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Exxon Corporation	27 973850
								Kerr-McGee Corporation	0 745550
								Rosalind Redfern	0 361880
								John J. Redfern III, Indep Exec)	0 361880
								Est of John J. Redfern, Jr. }	
								Martin Living Trust	0 515540
								R. Ken Williams	0 515540
								Edward H. Judson	0 515540
								Devon Energy Corporation (NV)	2 300800
								Yates Petroleum Corporation	2 300800
								Total this sub-tract	100 000000
3e	(As to SWNE)							Yates Petroleum Corporation	7 562340
								Yates Drilling Company	7 562340
								Abo Petroleum Corporation	2 520780
								Mycos Industries, Inc	7 562340
								Ernie Bello	0 019778
								Mrs. Francis B. Bunn	0 019778
								Gendron Family Revocable Tr	0 029667
								David Goodnow	0 019778
								Joseph R. Hodge	0 003296
								Sanford J. Hodge, III	0 003296
								E. G. Holden Testamentary Tr	0 009889
								Isaac A. Kawasaki	0 019778
								Betsy H. Keller	0 009889
								Charles Cline Moore	0 049445
								Agnus Cluiffe Oliver Tr	0 019778
								William B. Oliver Tr	0 019778
								Adolph P. Schuman Martl Tr	0 019778
								Space Building Corp.	0 049445
								J. F. Van Vranken, Jr	0 019778
								Unit Petroleum	8 623816
								Whiting Petroleum Corporation	2 151009
								Tipperary Oil & Gas Corporation	2 151009
								Claremont Corporation	0 579982
								Mary H. Ard	3 093233
								William A. Hudson II	3 093232
								Edward R. Hudson, Jr	3 093232
								Exxon Corporation	20 980388

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
							Kerr-McGee Corporation	0 559163
							Rosalind Redfern	0 271410
							John J. Redfern III, Indep Exec of Est of John J. Redfern, Jr }	0 271410
							Martin Living Trust	0 386655
							R. Ken Williams	0 386655
							Edward H. Judson	0 386655
							Yates Petroleum Corporation	1 725600
							Devon Energy Corporation (NV)	1 725600
							Chevron PBC, Inc	25 000000
							(Pennzoil Exploration & Production Company)	
							Total this sub-tract	100 000000

105-R28E Section 30: N/2SE (As To NW/SE) Stonewall "YE" State #1)	80 76	LG-2726-1 HBP	STATE OF NEW MEXICO ALL (12.5% Royalty)	Chevron PBC, Inc.-100% (Pennzoil Exploration & Production Company)			Yates Petroleum Corporation	7 562340
							Yates Drilling Company	7 562340
							Abo Petroleum Corporation	2 520780
							Myco Industries, Inc	7 562340
							Ernie Bello	0 019778
							Mrs. Francis B. Bunn	0 019778
							Gendron Family Revocable Tr	0 029667
							David Goodnow	0 019778
							Joseph R. Hodge	0 003296
							Sanford J. Hodge, III	0 003296
							E. G. Holden Testamentary Tr	0 009889
							Isaac A. Kawasaki	0 019778
							Betsy H. Keller	0 009889
							Charles Cline Moore	0 049445
							Agnus Clueth Oliver Tr	0 019778
							William B. Oliver Tr	0 019778
							Adolph P. Schuman Martl Tr	0 019778
							Space Building Corp.	0 049445
							J. F. Van Vranken, Jr	0 019778
							Unit Petroleum	12.925834



EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Claremont Corporation	0 579982
								Mary H Ard	3 093233
								William A Hudson II	3 093232
								Edward R Hudson, Jr	3 093232
								Exxon Corporation	20 980388
								Kerr-McGee Corporation	0 559163
								Rosalind Redfern	0 271410
								John J Redfern III, Indep Exec)	0 271410
								of Est of John J Redfern, Jr }	
								Martin Living Trust	0 386655
								R Ken Williams	0 386655
								Edward H Judson	0 386655
								Yates Petroleum Corporation	1 725600
								Devon Energy Corporation (NV)	1 725600
								Chevron PBC, Inc	25 000000
								(Pennzoil Exploration & Production Company)	
								Total this sub tract	100 000000

4b (As to NESE)

Yates Petroleum Corporation	7 562340
Yates Drilling Company	7 562340
Abo Petroleum Corporation	2 520780
Myco Industries, Inc	7 562340
Ernie Bello	0 019778
Mrs. Francis B Bunn	0 019778
Gendron Family Revocable Tr	0 029667
David Goodnow	0 019778
Joseph R. Hodge	0 003296
Sanford J. Hodge, III	0 003296
E. G. Holden Testamentary Tr	0 009889
Isaac A. Kawasaki	0 019778
Betsy H. Keller	0 009889
Charles Cline Moore	0 049445
Agnus Cluthe Oliver Tr	0 019778
William B. Oliver Tr	0 019778
Adolph P. Schuman Marli Tr	0 019778
Space Building Corp.	0 049445
J. F. Van Vranken, Jr	0 019778
Unit Petroleum	12 925834

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								Claremont Corporation	0 579982
								Mary H. Aid	3 093233
								William A. Hudson II	3 093232
								Edward R. Hudson, Jr	3 093232
								Exxon Corporation	20 980388
								Kerr-McGee Corporation	0 559163
								Rosalind Redfern	0 271410
								John J. Redfern III, Indep Exec}	0 271410
								of Est of John J. Redfern, Jr }	
								Martin Living Trust	0 386655
								R. Ken Williams	0 386655
								Edward H. Judson	0 386655
								Yates Petroleum Corporation	1 725600
								Devon Energy Corporation (NV)	1 725600
								Chevron PBC, Inc	25 000000
								(Pennzoil Exploration & Production Company)	

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Total this sub-tract 100 000000

5	120S-R26E Section 30: Lots 3, 4 E/2SW; S/2SE	244.74	K-6854-2 HBP	STATE OF NEW MEXICO ALL (12.5% Royalty)	EXXON CORPORATION-100%	Onyx Energy Company Pennzoil Exploration and Production Company Mark D. Wilson Robert Michael Boling and Janet Lynn Richardson Personal Representatives of the Estate of Robert E. Boling Mary L. Boling	3 493220 0 647100  2 000000  1 000000 1 000000		
						Total ORR	8 140320		
						As to Subtracts (a)-(d) incl			
						Onyx Energy Company Pennzoil Exploration and Production Company Mark D. Wilson	2 619915 0 485325 1 500000		

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
5a	(As to Lot 3) (Stonewall "WM" State #5)					Robert Michael Boling and Janet Lynn Richardson	0.750000		
						Personal Representatives of the Estate of Robert E. Boling			
						Mary L. Boling	0.750000		
						Total ORR	6.105240		
						Above As to Subtract (e)-(f) Incl			
						Yates Petroleum Corporation		Yates Petroleum Corporation	10.083120
						Yates Drilling Company		Yates Drilling Company	10.083120
						Abo Petroleum Corporation		Abo Petroleum Corporation	3.361040
						Mycos Industries, Inc.		Mycos Industries, Inc.	10.083120
						Ernie Bello		Ernie Bello	0.026371
						Mrs. Francis B. Bunn		Mrs. Francis B. Bunn	0.026371
						Gendron Family Revocable Tr		Gendron Family Revocable Tr	0.039556
						David Goodnow		David Goodnow	0.026371
						Joseph R. Hodge		Joseph R. Hodge	0.004394
						Sanford J. Hodge III		Sanford J. Hodge III	0.004394
						E. G. Hilden Testamentary Tr		E. G. Hilden Testamentary Tr	0.013184
						Isaac A. Kawasaki		Isaac A. Kawasaki	0.026371
						Betsy H. Keller		Betsy H. Keller	0.013185
						Charles Cline Moore		Charles Cline Moore	0.065927
						Agnes Cluthe Oliver Tr		Agnes Cluthe Oliver Tr	0.026371
						William B. Oliver Tr		William B. Oliver Tr	0.026371
						Adolph P. Schuman Martl Tr		Adolph P. Schuman Martl Tr	0.026371
						Space Building Corp.		Space Building Corp.	0.065927
						J. F. Van Vranken, Jr.		J. F. Van Vranken, Jr.	0.026371
						Unit Petroleum		Unit Petroleum	11.394842
						Whiting Petroleum Corporation		Whiting Petroleum Corporation	2.919802
						Tipperary Oil Corporation		Tipperary Oil Corporation	2.919801
						Claremont Corporation		Claremont Corporation	0.773310
						Mary H. Ard		Mary H. Ard	4.124310
						William A. Hudson II		William A. Hudson II	4.124310
						Edward R. Hudson, Jr.		Edward R. Hudson, Jr.	4.124310
						Exxon Corporation		Exxon Corporation	27.973850
						Kerr-McGee Corporation		Kerr-McGee Corporation	0.745550
						Rosalind Redfern		Rosalind Redfern	0.361880
						John J. Redfern III, Indep Exec		John J. Redfern III, Indep Exec	0.361880
						of Est of John J. Redfern, Jr.		of Est of John J. Redfern, Jr.	0.515540
						Martin Living Trust		Martin Living Trust	

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
								R. Ken Williams	0 515540
								Edward H. Judson	0 515540
								Devon Energy Corporation (NV)	2 300800
								Yates Petroleum Corporation	2 300800
								Total this sub-tract	100 000000
5b	(As to Lct 4) (Stonewall "VM" State #4)							Yates Petroleum Corporation	10 083120
								Yates Drilling Company	10 083120
								Abo Petroleum Corporation	3 381040
								Myco Industries, Inc	10 083120
								Ernie Bello	0 026371
								Mrs. Francis B. Bunn	0 026371
								Gendron Family Revocable Tr	0 039556
								David Goodnow	0 026371
								Joseph R. Hodge	0 004394
								Sanford J. Hodge, III	0 004394
								E. G. Holden Testamentary Tr	0 013184
								Isaac A. Kawasaki	0 026371
								Betsy H. Keller	0 013185
								Charles Cline Moore	0 085927
								Agnus Cluthe Oliver Tr	0 026371
								William B. Oliver Tr	0 026371
								Adolph P. Schuman Martl Tr	0 026371
								Space Building Corp.	0 085927
								J. F. Van Vraniken, Jr	0 026371
								Unit Petroleum	11 498420
								Whiting Petroleum Corporation	2 868013
								Tipperary Oil Corporation	2 868012
								Claremont Corporation	0 773310
								Mary H. Ard	4 124310
								William A. Hudson II	4 124310
								Edward R. Hudson, Jr	4 124310
								Exxon Corporation	27 973850
								Kerr-McGee Corporation	0 745550
								Rosalind Redfern	0 361880
								John J. Redfern III, Indep Exec	

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
5c	(As to NESW) (Stonewall "WM" State #5)							of Est of John J Redfern, Jr }	0 361880
								Martin Living Trust	0 515540
								R Ken Williams	0 515540
								Edward H. Judson	0 515540
								Devon Energy Corporation (NV)	2 300800
								Yates Petroleum Corporation	2 300800
								Total this sub-tract	100 000000
								Yates Petroleum Corporation	10 083120
								Yates Drilling Company	10 083120
								Abo Petroleum Corporation	3 361040
								Myco Industries, Inc	10 083120
								Ernie Bello	0 026371
								Mrs Francis B Bunn	0 026371
								Gendron Family Revocable Tr	0 039556
								David Goodnow	0 026371
								Joseph R. Hodge	0 004394
								Sanford J. Hodge, III	0 004394
								E. G. Holden Testamentary Tr	0 013184
								Isaac A. Kawasaki	0 026371
								Betsy H. Keller	0 013185
								Charles Cline Moore	0 065927
								Agnus Cluthe Oliver Tr	0 026371
								William B. Oliver Tr	0 026371
								Adolph P. Schuman Martl Tr	0 026371
								Space Building Corp.	0 065927
								J. F. Van Vranken, Jr	0 026371
								Unit Petroleum	11 394842
								Whiting Petroleum Corporation	2 919802
								Tipperary Oil Corporation	2 919801
								Claremont Corporation	0 773310
								Mary H. Ard	4 124310
								William A. Hudson II	4 124310
								Edward R. Hudson, Jr	4 124310
								Exxon Corporation	27 973850
								Kerr-McGee Corporation	0 745550
								Rosalind Redfern	0 361880
								John J. Redfern III, Indep Exec)	
								of Est of John J. Redfern, Jr }	0 361880

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
						Martin Living Trust	0 515540
						R. Ken Williams	0 515540
						Edward H. Judson	0 515540
						Devon Energy Corporation (NV)	2 300800
						Yates Petroleum Corporation	2 300800
						Total this sub-tract	100 000000
						Yates Petroleum Corporation	10 083120
						Yates Drilling Company	10 083120
						Abo Petroleum Corporation	3 361040
						Myco Industries, Inc	10 083120
						Ernie Bello	0 026371
						Mrs. Francis B. Bunn	0 026371
						Gendron Family Revocable Tr	0 039556
						David Goodnow	0 026371
						Joseph R. Hodge	0 004394
						Sanford J. Hodge, III	0 004394
						E. G. Holden Testamentary Tr	0 013184
						Isaac A. Kawasaki	0 026371
						Betsy H. Keller	0 013185
						Charles Cline Moore	0 065927
						Agnus Cluthe Oliver Tr	0 026371
						William B. Oliver Tr	0 026371
						Adolph P. Schuman Marit Tr	0 026371
						Space Building Corp	0 065927
						J. F. Van Vranken, Jr	0 026371
						Unit Petroleum	11 498420
						Whiting Petroleum Corporation	2 868013
						Tipperary Oil Corporation	2 868012
						Claremont Corporation	0 773310
						Mary H. Ard	4 124310
						William A. Hudson II	4 124310
						Edward R. Hudson, Jr.	4 124310
						Exxon Corporation	27 973850
						Kerr-McGee Corporation	0 745550
						Rosalind Redfern	0 361880
						John J. Redfern III, Indep Exec	0 361880
						of Est of John J. Redfern, Jr }	0 515540
						Martin Living Trust	

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
							R Ken Williams Edward H. Judson Devon Energy Corporation (NV) Yates Petroleum Corporation	0 515540 0 515540 2 300800 2 300800
							Total this sub-tract	100 000000
							Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Myco Industries, Inc Ernie Bello Mrs. Francis B. Bunn Gendron Family Revocable Tr David Goodnow Joseph R. Hodge Sanford J. Hodge, III E. G. Holden Testamentary Tr Isaac A. Kawasaki Betsy H. Keller Charles Cline Moore Agnus Cluthe Oliver Tr William B. Oliver Tr Adolph P. Schuman Marll Tr Space Building Corp. J. F. Van Vranken, Jr Unit Petroleum Claremont Corporation Mary H. Ard William A. Hudson II Edward R. Hudson, Jr Exxon Corporation Kerr-McGee Corporation Rosalind Redfern John J. Redfern III, Indep Exec of Est of John J. Redfern, Jr. } Martin Living Trust R Ken Williams Edward H. Judson Yates Petroleum Corporation	7 562340 7 562340 2 520780 7 562340 0 019778 0 019778 0 029667 0 019778 0 003296 0 003296 0 009889 0 019778 0 009889 0 049445 0 019778 0 019778 0 019778 0 049445 0 019778 12 925834 0 579982 3 093233 3 093232 3 093232 20 980388 0 559163 0 271410 0 271410  0 386655 0 386655 0 386655 1.725600

(as to SWSE)  
lonewall "WM" State #1)

EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
5f  (As to SESE) (Stonewall "WM" State #2)								Devon Energy Corporation (NV)	1.725600
								Chevron PBC, Inc.	25.000000
								(Pennzoil Exploration & Production Company)	
								Total this sub-tract	100.000000
								Yates Petroleum Corporation	7.562340
								Yates Drilling Company	7.562340
								Abo Petroleum Corporation	2.520780
								Myco Industries, Inc	7.562340
								Ernie Bello	0.019778
								Mrs. Francis B. Bunn	0.019778
								Gendron Family Revocable Tr	0.029667
								David Goodnow	0.019778
								Joseph R. Hodge	0.003296
								Sanford J. Hodge, III	0.003296
								E. G. Holden Testamentary Tr	0.009889
								Isaac A. Kawasaki	0.019778
								Betsy H. Keller	0.009889
								Charles Cline Moore	0.049445
								Agnus Cluthe Oliver Tr	0.019778
								William B. Oliver Tr	0.019778
								Adolph P. Schuman Martl Tr	0.019778
								Space Building Corp.	0.049445
								J. F. Van Vranken, Jr	0.019778
								Unit Petroleum	8.623816
								Whiting Petroleum Corporation	2.151009
								Tipperary Oil Corporation	2.151009
								Claremont Corporation	0.579982
								Mary H. Ard	3.093233
								William A. Hudson II	3.093232
								Edward R. Hudson, Jr	3.093232
								Exxon Corporation	20.980388
								Kerr-McGee Corporation	0.559163
								Rosalind Redfern	0.271410
								John J. Redfern III, Indep. Exec.	0.271410
								of Est. of John J. Redfern, Jr.	
								Marlin Living Trust	0.386655
								R. Ken Williams	0.386655





EXHIBIT "B"  
SCHEDULE OF OWNERSHIP  
SCHEDULE SHOWING ALL LANDS AND LEASES  
WITHIN THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NM

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
	Section 6, Lots 1 & 2		HBP	ALL (12 5% Royalty)	New Mexico, Inc. -100%				
10	T20S-R28E Section 32: N/2NW, SWNW, W/2SW, SESW	241.07	L-324-2 HBP	STATE OF NEW MEXICO ALL (12 5% Royalty)	Exxon Corporation -100%			Exxon Corporation	100.000000
Total State Acreage:		1155.78							
11	T20S-R28E Section 32: SENW (below 1,000 feet), NESW	80.35	FEE-HBP Lease dated 07/15/54	KEYSTONE CORP ET AL Royalty 1/8 (E. Davis Trust 3.125%) (L. Davis Trust 3.125%) (Sabine Royalty Trust 3.125%) (Singer Brothers 3.125%) ----- Total Royalty 12.500%	Exxon Corporation-100%			Exxon Corporation	100.000000
12	T20S-R28E Section 32: SWNE, W/2SE	120.52	FEE-HBP Lease dated 09/03/73	Elliott Davis) Mineral Tr.) Royalty 1/4 Leon Davis.) Tr. ) Royalty 1/4 NationsBank of Texas, N. A. Tr) Royalty 3/16 Singer Bros. Royalty 3/16	Exxon Corporation Napeco Seventy-Seven Corporation Unit Petroleum William B. Oliver Trust Agnes Cluthe Oliver Trust Estate of Jack O. McCall Charles Cline Moore TR Oil Corporation Whiting Petroleum Corporation Tipperary Oil & Gas Corporation Yates Drilling Company Los Chicos Mycos Industries, Inc. John A. Yates	First City National Bank, Trustee of the Delta-Flag Royalty Trust Robert L. Spears Mark D. Wilson Robert Michael Boling and Janet Lynn Richardson Personal Representatives of the) Estate of Robert E. Boling Mary L. Boling	3.7500000 0.2851562 0.5000000 0.2500000  0.2500000  5.0351562	Exxon Corporation Napeco Seventy-Seven Corporation Unit Petroleum William B. Oliver Tr Agnes Cluthe Oliver Tr Estate of Jack O. McCall Charles Cline Moore TR Oil Corporation Whiting Petroleum Corporation Tipperary Oil Corporation Yates Drilling Company Los Chicos Mycos Industries, Inc. John A. Yates	62.500000 15.000000 1.666680 4.895246 0.008970 0.008970 0.072580 0.029030 0.870900 1.223812 1.223812 4.166670 2.083330 4.166660 2.083340

**EXHIBIT "B"**  
**SCHEDULE OF OWNERSHIP**  
**SCHEDULE SHOWING ALL LANDS AND LEASES**  
**WITHIN THE AVALON (DELAWARE) UNIT**  
**EDDY COUNTY, NM**

Tract NO	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD & PERCENTAGE	OVERRIDING ROYALTY	PERCENTAGE	WORKING INTEREST	PERCENTAGE
Total Fee Acreage:		200.87			Tract Total	100.000000		Tract Total	100.000000
RECAPITULATION:									
TOTAL FEDERAL ACREAGE		783.49							
TOTAL STATE ACREAGE		1155.78							
TOTAL FEE ACREAGE		200.87							
TOTAL UNIT ACREAGE		2140.14							

**AVALON DELAWARE UNIT**  
**SCHEDULE OF TRACT PARTICIPATION**  
**EXHIBIT C**

Tract	Tract Participation
Tract 1	0.00127811
Tract 2	0.53873810
Tract 3a	0.02419206
Tract 3b	0.04411633
Tract 3c	0.00284844
Tract 3d	0.03613108
Tract 3e	0.00227227
Tract 4a	0.00534375
Tract 4b	0.00155079
Tract 5a	0.04239256
Tract 5b	0.02205552
Tract 5c	0.06556912
Tract 5d	0.06327370
Tract 5e	0.01981539
Tract 5f	0.00720522
Tract 6	0.01019231
Tract 7	0.00268034
Tract 8	0.00118608
Tract 9	0.00278502
Tract 10	0.09372665
Tract 11	0.01144928
Tract 12	0.00119788
	1.000000

**EXHIBIT "D"**  
**RESERVES BY TRACT**

TRACT	REMAINING PRIMARY RESERVES	WATERFLOOD RESERVES	TERTIARY RESERVES
1	0.00	0.00	203.90
2	741.80	4,368.20	18,995.00
3-A	0.00	345.10	530.60
3-B	43.40	403.60	1,693.00
3-C	0.00	0.80	446.70
3-D	33.40	373.30	1,045.90
3-E	0.00	0.00	362.50
4-A	0.00	0.00	852.50
4-B	0.00	0.00	247.40
5-A	53.40	368.10	1,425.90
5-B	19.30	174.50	1,189.70
5-C	33.80	741.50	2,177.20
5-D	40.30	698.40	2,009.30
5-E	20.20	157.50	966.20
5-F	0.00	69.30	481.00
6	0.00	0.00	1,626.00
7	0.00	0.00	427.60
8	0.70	0.00	165.80
9	0.00	0.00	444.30
10	202.80	499.40	3,350.90
11	3.10	69.70	1,050.50
12	0.00	0.00	191.10
TOTAL	1,192.20	8,269.40	39,883.00

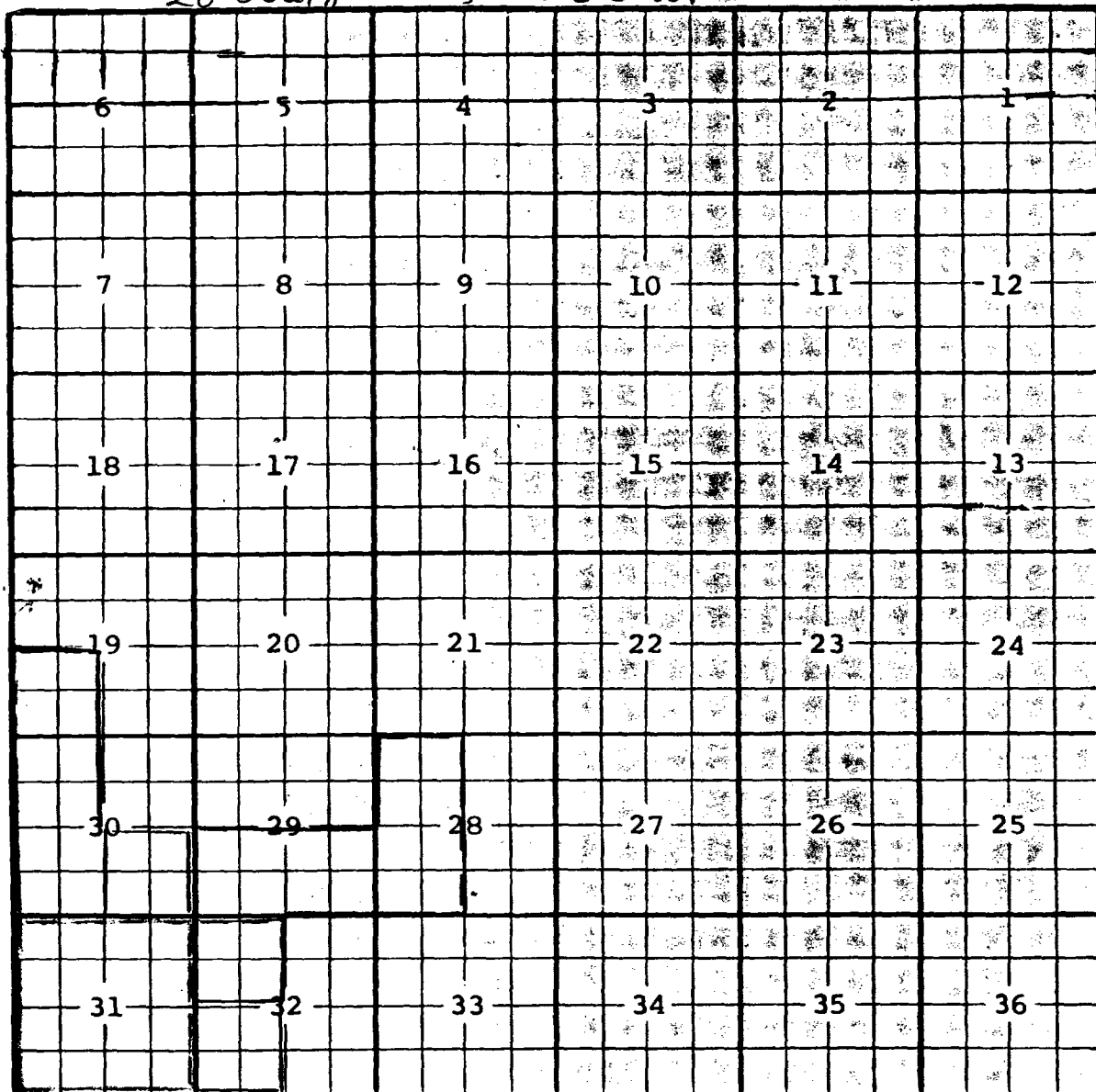
**RESERVE DATA**

**UNITS ARE THOUSAND OF BARRELS**

It is understood and agreed that the above numbers are estimates that were utilized in determining Tract Participation for the Unit; they do not constitute any representation as to the amount of oil that may actually be recovered by each tract or by the unit as a whole.

County Eddy Pool Avalon-Delaware

TOWNSHIP 20 South Range 28 East NMPM



Ext: Sec. 31 Oil (R-7193, 1-26-83)

Ext: NW/4 Sec. 32 (R-7229, 5-12-83) Ext: SW/4 Sec. 32 (R-7322, 8-1-83)

Ext: SE/4 Sec. 30 (R-7334, 8-19-83) Ext: SW/4 Sec. 19, W/2 Sec. 30 (R-7419, 12-21-83)

Ext: W/2 Sec. 28, S/2 Sec. 29 (R-7437, 2-6-84)

**UNIT OPERATING AGREEMENT  
OF THE AVALON (DELAWARE) UNIT  
EDDY COUNTY, NEW MEXICO**



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17

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29

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32

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35

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38

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41

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44

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2

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11

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19

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26

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30

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- Exhibit "B"- Schedule of Ownership
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- Exhibit "D"- Reserves by Tract
- Exhibit "E"- Unit Participation
- Exhibit "F"- Accounting Procedure
- Exhibit "G"- Gas Balancing Agreement
- Exhibit "H"- List of Well Bores
- Exhibit "I"- Notice of Lien and Mortgage-Financing Statement
- Exhibit "J"- Equal Opportunity Clause

1  
2  
3

1  
2  
3                   **UNIT OPERATING AGREEMENT**  
4                   **OF THE AVALON (DELAWARE) UNIT**  
5                   **EDDY COUNTY, NEW MEXICO**

6           **THIS AGREEMENT**, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 199\_, by and  
7 between the parties who have signed the original of this instrument, a counterpart thereof or other  
8 instrument agreeing to be bound or who are otherwise bound by the provisions hereof;

9  
10 **WITNESSETH:**

11  
12           **WHEREAS**, the parties hereto as Working Interest Owners have executed, as of the date  
13 hereof, an Agreement entitled, "Unit Agreement for the Development and Operation of the  
14 Avalon (Delaware) Unit Area", Eddy County, New Mexico (the "Unit Agreement"), which,  
15 among other things, provides for a separate Agreement to be entered into by Working Interest  
16 Owners to provide for the development and operation of the Unit Area as therein defined;

17  
18           **NOW THEREFORE**, in consideration of the mutual agreements herein set forth, it is  
19 agreed as follows:

20  
21                                   **ARTICLE 1**  
22                   **CONFIRMATION OF UNIT AGREEMENT AND DEFINITIONS**  
23

24    1.1    **Confirmation of Unit Agreement.** The Unit Agreement is hereby confirmed and by  
25 reference made a part of this Agreement. If there is any conflict between the Unit Agreement and  
26 this Agreement, the Unit Agreement shall govern.

27  
28    1.2    **Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes  
29 of this Agreement.

30  
31                                   **ARTICLE 2**  
32                   **EXHIBITS**  
33

34    2.1    **Exhibits.** The following exhibits are incorporated herein by reference:

35  
36          2.1.1   **Exhibits "A", "B", "C", and "D"** of the Unit Agreement.

37  
38          2.1.2   **Exhibit "E"** attached hereto, which is a schedule showing the total Unit  
39 Participation of each Working Interest Owner. Exhibit "E", or a revision thereof,  
40 shall not be conclusive as to the information therein, except it may be used as  
41 showing the Unit participation of the Working Interest Owners for the purposes of  
42 this Agreement until shown to be in error and revised as herein.

43  
44          2.1.3   **Exhibit "F"**, attached hereto, which is the Accounting Procedure applicable to  
45 the Unit Operations. If there is any conflict between this Agreement and  
46 Exhibit "F", this Agreement shall govern.

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

2.1.5 **Exhibit "H"**, attached hereto, which is the List of Well Bores.

2.1.6 **Exhibit "I"**, attached hereto, which is the Notice of Lien and Mortgage-Financing Statement.

2.1.7 **Exhibit "J"**, attached hereto, which contains Equal Opportunity provisions applicable to Unit Operations.

2.2 **Revision of Exhibits.** Should Exhibits "A", "B", "C", be revised in accordance with provisions of the Unit Agreement, Exhibit "E" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "E" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

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

### ARTICLE 3

#### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

3.2.1 **Method of Operation.** The method of operation, including any type of Improved Recovery Project.

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

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

3.2.4 **Expenditures.** The making of any single expenditure in excess of One Hundred Thousand Dollars (\$100,000); provided that approval by Working Interest Owners of the drilling, reworking, deepening or plugging back of any well shall include approval of all necessary expenditures required therefore, and for



1 completing, testing and equipping the same, including necessary flow lines,  
2 separators and lease tankage.

3  
4 **3.2.5 Disposition of Unit Equipment.** The selling or otherwise disposing of any major  
5 item of surplus Unit Equipment, if the current list price of new equipment similar  
6 thereto is One Hundred Thousand Dollars or more.

7  
8 **3.2.6 Audits.** The auditing of the accounts of Unit Operator pertaining to Unit  
9 Operations hereunder; however, such audits shall

10  
11 (a) Not be conducted more than once each year except upon the resignation or  
12 removal of Unit Operator, and

13  
14 (b) Be made upon the approval of the owner or owners of a majority of the  
15 Working Interest other than that of Unit Operator, at the expense of all  
16 Working Interest Owners other than Unit Operator, or be made at the  
17 expense of those Working Interest Owners requesting such audit, if  
18 owners of less than a majority of the Working Interests, other than that of  
19 the Unit Operator, request such an audit, and

20  
21 (c) Be made upon not less than thirty (30) days written notice to Unit  
22 Operator.

23  
24 **3.2.7 Technical Services.** The authorizing of charges to the joint account for services  
25 by consultants or Unit Operator's technical personnel not covered by the charges  
26 provided for in Exhibit "F".

27  
28 **3.2.8 Assignments to Committees.** The appointment of committees to study any  
29 problems in connection with Unit Operations.

30  
31 **3.2.9 Removal of Unit Operator.** The removal of Unit Operator and the selection of a  
32 successor as provided in the Unit Agreement.

33  
34 **3.2.10 Expansion of Unit Area.** The enlargement of the Unit Area.

35  
36 **3.2.11 Termination of Unit Agreement.** The termination of the Unit Agreement.

37  
38 **3.2.12 Contracts for Outside Substances.** Approval of contracts negotiated by Unit  
39 Operator pursuant to Section 7.13.

40  
41 **ARTICLE 4**  
42 **MANNER OF EXERCISING SUPERVISION**

43  
44 **4.1 Designation of Representatives.** Each Working Interest Owner shall in writing inform  
45 Unit Operator of the names and addresses of the representative and alternate who are authorized  
46 to represent and bind such Working Interest Owner with respect to Unit Operations. The

representative or alternate may be changed from time to time by written notice to Unit Operator.

**4.2 Meetings.** All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at a request of two or more of the Working Interest Owners having a total Unit Participation of not less than five percent (5%). No meeting shall be called sooner than fourteen (14) days following the date that written notification thereof is mailed. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator or its alternate shall be chairman of each meeting. The Unit Operator will prepare and furnish minutes of all meetings to the Working Interest Owners.

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

**4.3.1 Voting Interest.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation at the time the ballot is distributed. It is expressly recognized that Unit Participation (and the resulting voting interest) may be adjusted as the result of a Working Interest Owner electing not to participate in Unit Operations pursuant to Articles 12 and/or 13.

**4.3.2 Vote Required- Generally.** Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of the owner of the largest voting interest plus the owners of ten percent (10%) of the voting interest remaining after deducting the largest voting interest, provided that in no event may a proposal be approved by less than seventy-five percent (75%) of the voting interest.

**4.3.3 Vote Required for Drilling Well.** Any proposal that includes the drilling of one or more wells to a depth of 2,400 feet or greater may be approved by an affirmative vote of the owners of eighty-five percent (85%) or more of the voting interest.

**4.3.4 Vote Required for Expenditures in Excess of One Million Dollars (\$1,000,000).** Any proposal that is reasonably expected to require expenditures in excess of One Million Dollars (\$1,000,000) may be approved by an affirmative vote of the owners of eighty-five percent (85%) or more of the voting interest.

**4.3.5 Vote Required to Proceed With CO<sub>2</sub> Injection.** Notwithstanding anything in this agreement to the contrary, any proposal to commence CO<sub>2</sub> injection shall require the affirmative vote of the owners of the largest two voting interests, provided that in no event shall a proposal be approved by a vote of less than 75% of the voting interest. It is understood and agreed that the requirements of this section shall apply to any proposal to commence the injection of CO<sub>2</sub> including a pilot or test project, or to substantially expand the area covered by the injection of such CO<sub>2</sub>, as well as any proposal for a study of commencing such injection,

provided that any proposal involving the ongoing operation and maintenance of previously approved CO<sub>2</sub> injection shall not be deemed to be covered by the terms hereof. It is further understood and agreed that, for the purposes of this section 4.3.5, and only for such purposes, the voting interest of the following parties shall

be deemed to be owned by a single party:

Yates Petroleum Corporation

Yates Drilling Company

MYCO Industries, Inc.

Abo Petroleum Corporation

Los Chicos

John A. Yates

S. P. Yates

It is further understood and agreed that (i) Yates Petroleum Corporation shall represent the entire voting interest of all the above parties, and the vote of Yates Petroleum Corporation shall be binding on all of such parties; and (ii) In the event that any of the above parties disposes of any of its interest to any party other than those parties listed above, such interest shall no longer be deemed to be owned by the owner of the above interests.

**4.3.6 Vote Required to Amend Unit Operating Agreement.** This Unit Operating Agreement may be amended by an affirmative vote of ninety percent (90%) or more voting interest; provided that, should any one working Interest Owner have ninety percent (90%) or more of the voting interest, its vote must be supported by the vote of two (2) or more other Working Interest Owners.

**4.3.7 Overhead Rates.** The overhead rates provided for in Exhibit "F" hereof may be amended by a vote of the Unit Operator plus fifty percent (50%) of the voting interest remaining after deducting the voting interest of the Unit Operator, provided that in no event may overhead rates be amended by less than seventy-five percent (75%) of the voting interest.

**4.3.8 Vote at Meeting by Non-Attending Working Interest Owners.** Any Working Interest Owner who is not represented (either in person or by proxy) at a meeting may vote by letter, facsimile or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.

**4.3.9 Poll Votes.** Working Interest Owners may vote on and decide by letter, facsimile or telegram, any matter submitted in writing to Working Interest Owners. If no meeting is requested, as provided in Section 4.2, within fourteen (14) days after the proposal is sent to Working Interest Owners the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

**ARTICLE 5**  
**INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS**

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

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

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

**5.2.2 Reports.** The right to receive from Unit Operator, upon written request, copies of all reports 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 may be charged to the Working Interest Owner that requests the information.

**5.3 Taking Unitized Substances in Kind.** The Unitized Substances allocated to each Tract shall be taken in kind by the respective parties entitled thereto by virtue of their ownership of Oil and Gas Rights therein or by purchase from such parties. Such parties shall have the right at their sole cost and expense, to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained and operated so 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 party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

**5.4 Failure to Take Production in Kind.** If any party fails to take in kind or separately dispose of its share of Oil and or/ Gas included in the Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the party owning such share, to purchase for its own account or sell to others such share; provided that all contracts for sale by Unit Operator of any other party's share of such Oil and/or Gas 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 Oil and/or Gas so disposed of by Unit Operator shall be paid to the party entitled thereto in accordance with applicable laws and regulations.

**5.5 Disposition of Gas.** In the event one or more parties' separate disposition of its share of Gas included in the Unitized Substances causes deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas allocated to it hereunder, the balancing or accounting between the respective accounts of the parties shall be in accordance with the provisions of Exhibit "G" hereto. It is expressly understood that, as of the Effective Date, the parties shall all be deemed to be in balance as to their interest in Gas included

1 in the Unitized Substances, and that, if there was any imbalance in the taking of gas produced  
2 from the Unitized Formation prior to the Effective Date, those parties as to which such imbalance  
3 exists shall settle such imbalance in accordance with applicable law and any agreements  
4 applicable to such imbalance. For the purpose of this provision, "Gas" means those hydrocarbons  
5 included in Unit production which at atmospheric conditions of temperature and pressure are in a  
6 gaseous phase, including hydrocarbons found therein which may be extracted or isolated as  
7 liquefied petroleum gas or natural gasoline by processing the gas other than by conventional  
8 surface separators.

9  
10 **5.6 Taking Outside Substances in Kind.** The implementation of an Improved Recovery  
11 Project may require injection into the Unitized Formation of substantial volumes of Outside  
12 Substances. At such time as the Working Interest Owners determine to produce and dispose of  
13 such Outside Substances, it is understood that such production will be shared and owned in  
14 accordance with the Unit Participation for each Working Interest Owner at the time of such  
15 disposal, and the provisions of Sections 5.3, 5.4 and 5.5 above shall apply to the taking and  
16 failure to take such Outside Substances **mutatis mutandis**.

17  
18 **5.7 No Sharing of Market.** Nothing herein shall be construed to provide directly or  
19 indirectly for any cooperative refining, joint sale or marketing of Unit Production or of Outside  
20 Substances produced from the Unitized Formation.

21  
22 **5.8 Reversionary Interest.** In the event that the ownership of any Tract is subject to change  
23 due to the payout, or multiple payout, of a well within the Unit under the terms of any other  
24 agreement, including, but not limited to, an operating agreement or a farmout agreement, it is  
25 understood and agreed that such payout, or multiple payout as the case may be, shall be deemed  
26 to have occurred as of the Effective Date, it being understood that the parties to the agreements  
27 creating such interest(s) shall negotiate in good faith to agree upon some compensation for the  
28 conversion of such interests prior to the date which conversion would have occurred in the  
29 absence of this Agreement.

## 30 31 **ARTICLE 6** 32 **UNIT OPERATOR**

33  
34 **6.1 Initial Unit Operator.** Exxon Corporation is hereby designated as the initial Unit  
35 Operator.

## 36 37 **ARTICLE 7** 38 **AUTHORITIES AND DUTIES OF UNIT OPERATOR**

39  
40 **7.1 Exclusive Right to Operate Unit.** Subject to the provisions of this Agreement and to  
41 instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be  
42 obligated to conduct Unit Operations.

43  
44 **7.2 Workmanlike Conduct.** Unit Operator shall conduct Unit Operations in a good and  
45 workmanlike manner as would a prudent operator under the same or similar circumstances. Unit  
46 Operator shall not be liable to Working Interest Owners for damages unless such damages result

1 from its gross negligence or willful misconduct.  
2

3 **7.3 Liens and Encumbrances.** Unit Operator shall endeavor to keep the lands and leases in  
4 the Unit Area free from all liens and encumbrances occasioned by Unit Operations except the  
5 lien of Unit Operator granted hereunder.  
6

7 **7.4 Employees.** The number of employees used by Unit Operator in conducting Unit  
8 Operations, their selection, hours of labor and compensation shall be determined by Unit  
9 Operator. Such employees shall be the employees of Unit Operator.  
10

11 **7.5 Records.** Unit Operator shall keep correct books, accounts and records of Unit  
12 Operations.  
13

14 **7.6 Laws and Regulations.** Unit Operator agrees to comply with all laws and regulations  
15 applicable to any activities carried out in the name of or on behalf of any one or more of the  
16 Working Interest Owners under the provisions of this Agreement and/or any amendments to it.  
17

18 **7.7 Financial Settlements, Billings, and Reports.** Unit Operator agrees that all financial  
19 settlements, billings, and reports rendered to any one or more of the Working Interest Owners, as  
20 provided for in this Agreement and/or amendments to it, will, to the best of its knowledge and  
21 belief, reflect properly the facts about all activities and transactions handled for the account of  
22 such Working Interest Owner(s), which data may be relied upon as being complete and accurate  
23 in any further recording and reporting made by such Working Interest Owner(s) for whatever  
24 purposes.  
25

26 **7.8 Notification.** Unit Operator agrees to notify the other Working Interest Owners promptly  
27 upon discovery of any instance where the Unit Operator fails to comply with the provision  
28 Section 7.6 above or where the Unit Operator has reason to believe that data covered by Section  
29 7.7 above is no longer accurate and complete.  
30

31 **7.9 Reports to Governmental Authorities.** Unit Operator shall make all reports to  
32 governmental authorities that it has the duty to make as Unit Operator.  
33

34 **7.10 Engineering and Geological Information.** Unit Operator shall furnish to a Working  
35 Interest Owner upon written request, a copy of all logs and other non-interpretive engineering  
36 and geological data pertaining to Unit Operations, subject to the provisions of Section 5.2.2.  
37

38 **7.11 Expenditures.** Unit Operator is authorized to make single expenditures not in excess of  
39 One Hundred Thousand Dollars (\$100,000) without prior approval of Working Interest Owners.  
40 If an emergency occurs, Unit Operator may immediately make or incur such expenditures in  
41 excess of this limit as in its opinion are required to deal with the emergency. Unit Operator shall  
42 report to Working Interest Owners, as promptly as possible, the nature of the emergency  
43 necessitating such expenditures and the action taken.  
44

45 **7.12 Wells Drilled by Unit Operator.** All wells drilled by Unit Operator shall be at the usual  
46 rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the

charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

**7.13 Exclusive Right to Contract for Outside Substances.** Subject to the provisions of this Agreement and to the instructions from and approval of the Working Interest Owners, the Unit Operator is authorized and shall have the exclusive right and obligation to contract for and on behalf of the Unit for such purchase, exchange, storage, use and acquisition of Outside Substances as is reasonable and necessary for conducting any Improved Recovery Project under such terms and conditions as Unit Operator shall deem proper and advisable. Each Working Interest Owner shall have the right to supply its proportionate share of Outside Substances in kind, subject to such Working Interest Owner complying with all reasonable conditions and requirements established from time to time by the Working Interest Owners for such purpose, it being understood that such requirements may include a requirement that Working Interest Owners elect whether they will supply their share of Outside Substances in kind for the entire period to be covered by a proposed contract for the acquisition of such Outside Substances. Notwithstanding anything contained in this Agreement, Unit Operator shall have the right to re-inject any Outside Substances produced in the course of Unit Operations.

**7.14 Border Agreements.** Unit Operator may, after approval by Working Interest Owners pursuant to Section 4.3.2, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

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

## **ARTICLE 8 TAXES**

**8.1 Ad Valorem Taxes.** Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such taxes shall be charged to and borne by the parties owning the same in proportion to their respective Unit Participation therein, provided that for any period prior to the Effective Date, such taxes shall be charged to and be borne by the parties based on their interest (or the interest of their predecessor in interest) prior to Unitization. Other ad valorem taxes upon or directly measured by the value of Unitized Substances produced from the subject lands shall be charged to and borne by the parties in the same proportion as the assessed value of their respective portions of the Unitized Substances bears to the whole; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment or other interest in excess of one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

1  
2 **8.2 Other Taxes.** Each Working Interest Owner shall pay, or cause to be paid, all production,  
3 severance, gathering and other taxes imposed upon, or with respect to, the production or handling  
4 of its share of Unitized Substances.  
5

6 **ARTICLE 9**  
7 **INSURANCE**  
8

9 **9.1 Insurance.** Unit Operator, with respect to Unit Operations, shall do the following:  
10

11 **9.1.1 Workman's Compensation.** Comply with the Workman's Compensation laws of  
12 the State of New Mexico.  
13

14 **9.1.2 Employer's Liability Insurance.** Carry Employer's Liability and other insurance  
15 as required by the laws of the State of New Mexico.  
16

17 **9.1.3 Other Insurance.** Unit Operator shall not carry any other insurance on behalf of  
18 the Unit.  
19

20 **ARTICLE 10**  
21 **PROPERTY TAKEN OVER**  
22

23 **10.1 Personal Property Taken Over.** Upon the Effective Date of the Unit, the Working  
24 Interest Owners shall deliver to Unit Operator all personal property and fixtures necessary or  
25 useful for Unit Operations as follows:  
26

27 **10.1.1 Wells and Well Equipment.** All wells listed on Exhibit "H" and associated well  
28 equipment shall be delivered subject to the terms of Article 11 hereof, provided that: (i)  
29 Exhibit "H" may be amended to add or delete wells by vote of the Working Interest  
30 Owners as provided herein; and (ii) Within ten (10) days after the Effective Date, or after  
31 a well has been added to Exhibit "H" by vote of the Working Interest Owners, whichever  
32 is applicable, the owner of such well may elect, by written notification to Unit Operator,  
33 to retain such well and its associated well equipment, subject to the requirements of  
34 Section 11.4 hereof.  
35

36 **10.1.2 Lease and Operating Equipment.** Subject to the procedures set out in Section  
37 10.3, all lease and operating equipment, and all wells other than those covered by Section  
38 10.1.1 and facility systems related to production from the Unitized Formation or which  
39 may be useful for Unit Operations and which are located on the Unitized Area shall be  
40 deemed to have been delivered to Unit Operator as of the Effective Date, provided that  
41 within ten (10) days of such Effective Date the owner of any such equipment that does  
42 not wish to contribute it to the Unit may, by written notification to Operator, elect to  
43 retain such equipment.  
44

45 **10.1.3 Working Interest Owners Retain Responsibility for Wells.** Notwithstanding  
46 anything contained herein to the contrary, it is understood and agreed that the parties shall



1 retain the authority to conduct testing, evaluation and repair operations on the wells listed  
2 on Exhibit "H" hereto, and the facilities associated therewith in order to establish and/or  
3 render same useful for Unit Operations as provided in Article 10 & 11, and that, until  
4 such time as said well(s) and well equipment have been accepted by the Unit as provided  
5 herein, the owners thereof shall retain all liability and responsibility for such wells, and  
6 shall be solely responsible for complying with all permitting and bonding requirements  
7 applicable thereto.  
8

9 **10.2 Records.** Within ten (10) days of the Effective Date, each Working Interest Owner shall  
10 deliver to Unit Operator a copy of all production and well records pertaining to any well which  
11 (i) has produced or is currently producing from the Unitized Formation; and/or (ii) is listed on  
12 Exhibit "H".  
13

14 **10.3 Inventory and Evaluation of Personal Property.** Working Interest Owners shall  
15 appoint an inventory committee which shall, as of the Effective Date or as soon thereafter as is  
16 feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint  
17 physical inventories of the lease and well equipment described in Section 10.1.2, which  
18 inventories shall be used as a basis for determining the items of equipment to be taken over by  
19 the Unit Operator hereunder. Physical inventories conducted prior to the Effective Date hereof  
20 may be used for this purpose with approval by Working Interest Owners. The Unit Operator shall  
21 notify each Working Interest Owner within each separate Tract at least ten (10) days prior to the  
22 taking of the inventory with respect to said Tract, so that each of said Working Interest Owners  
23 may make arrangements to be represented at the taking of the inventory. Such inventories shall  
24 include those items of equipment normally considered controllable as recommended in the  
25 materials classification manual in Bulletin No. 6 dated June, 1982 or any amendments thereto,  
26 published by the Council of Petroleum Accountants Societies, except that intangible drill and  
27 complete costs will also be included and valued at \$225,000 per well for the purposes of the  
28 inventory adjustment. Such inventories shall exclude all items not of use and value to the Unit  
29 and not necessary to Unit Operations. Following completion of the inventories, such inventories  
30 shall be priced in accordance with the provisions of Exhibit "F" hereto, and made a part hereof.  
31 Such pricing shall be performed under the supervision of the Unit Operator, with Working  
32 Interest Owners furnishing such additional assistance in valuation as may be available and  
33 necessary.  
34

35 **10.4 Inventory and Valuations.** After completion of the applicable inventory and evaluation  
36 of property in accordance with the provisions of Section 10.3, Unit Operator shall submit to each  
37 Working Interest Owner a copy of the inventory and valuations thereon together with a letter  
38 ballot for approval of such inventory and valuations. Any item of equipment not listed on said  
39 inventory shall be deemed excluded from the Unit. Within sixty (60) days after receipt of such  
40 inventory and valuations each Working Interest Owner shall return such letter ballot to Unit  
41 Operator indicating its approval or disapproval thereof. It is agreed that such inventory and  
42 valuations shall be binding upon all parties if approved by Working Interest Owners owning as  
43 much as sixty-five percent (65%) of the Working Interest in the Unit Area, except that if one  
44 owner exceeds sixty five percent (65%), one other Working Interest Owner will be required to  
45 approve such inventory and valuations for it to be binding. It is understood and agreed that,  
46 notwithstanding anything contained herein to the contrary, Unit Operator shall submit the

1 inventory and evaluation for approval by Working Interest Owners only after all of the wellbores  
2 to be included in the Unit have been declared to be either usable or not usable in accordance with  
3 the terms of Article 11 hereof.

4  
5 **10.5 Investment Adjustments.** As soon as practicable after approval by Working Interest  
6 Owners of the inventory and valuations as provided in Section 10.4, each Working Interest  
7 Owner shall be credited with the value of its interest in all personal property taken over by Unit  
8 Operator under Section 10.1, and charged with an amount equal to that obtained by multiplying  
9 the total value of all such personal property so taken over by Unit Operator under Section 10.1 by  
10 such Working Interest Owner's Unit Participation, as shown on Exhibit "E", attached hereto. If  
11 the charge against any Working Interest Owner is greater than the amount credited to such  
12 Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated  
13 as any other item of Unit Expense chargeable against such Working Interest Owner subject to the  
14 terms of Section 12.3. If the credit to any Working Interest Owner is greater than the amount  
15 charged against such Working Interest Owner, the resulting net credit shall be paid to such  
16 Working Interest Owner by Unit Operator out of funds received by it in settlement of the net  
17 charges described above.

18  
19 **10.6 General Facilities.** The acquisition of any warehouses, warehouse stocks, lease houses,  
20 facility or facilities systems, and office buildings necessary for Unit Operations and not  
21 contributed to the Unit under the terms hereof, shall be by negotiations by and between the  
22 owners thereof and Unit Operator, subject to the requirements of Article 3.

23  
24 **10.7 Ownership of Personal Property and Facilities.** Each Working Interest Owner,  
25 individually, shall, by virtue hereof, own an undivided interest in all personal property and  
26 facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement equal to  
27 its Unit Participation, as shown on Exhibit "E" attached hereto.

## 28 29 **ARTICLE 11** 30 **WELLBORES**

31  
32 **11.1 Usable Wells.** Whether currently active, shut-in, temporarily abandoned, plugged and  
33 abandoned or completed in a non-Unitized interval, a well must meet all of the following  
34 conditions to qualify as "Usable" for the purposes of this Agreement:

35  
36 **11.1.1 Completion Interval.** The well must be completed in the Unitized Formation, and  
37 not completed outside the Unitized Formation.

38  
39 **11.1.2 Casing Integrity.** The well must demonstrate casing integrity by acceptably  
40 completing a pressure test for depths above the top of the Unitized Formation,  
41 said pressure test to be performed with water at a minimum surface pressure of  
42 700 pounds per square inch for a minimum of thirty minutes, as documented  
43 using a chart recorder. To recognize thermal effects and other conditions that  
44 might affect pressure readings, a pressure change of 10% during the test period  
45 will be accepted if, in the opinion of the Unit Operator, such change is not the  
46 result of test fluid loss or gain.

1  
2 **11.1.3 Isolation of Non-Unitized Formations.** If a well was ever previously completed  
3 in an interval other than the Unitized Formation or if pressure communication into  
4 such intervals is suspected for any reason, the source of the communication must  
5 be repaired.  
6

7 **11.1.4 Wellbore Condition.** The well must be free of scale, junk and debris to the base  
8 of the productive zone of the Unitized Formation.  
9

10 **11.1.5 Wellbore Size.** Any production casing and liner, if present, must be at least 4-1/2"  
11 diameter.  
12

13 **11.1.6 Cement Integrity.** The well must have cement integrity sufficient to protect the  
14 Goat Seep Reef. The owner of the well must provide wellbore records sufficient  
15 to demonstrate such cement integrity. If the Unit Operator, acting in its sole  
16 discretion, determines that the records provided are not sufficient to demonstrate  
17 such cement integrity, an injecting temperature tracer survey shall be run in  
18 accordance with procedures established or approved by the Unit Operator.  
19

20 **11.1.7 Other Wells.** Notwithstanding anything contained in this Section 11.1 to the  
21 contrary, in the event that a well covered hereby is to be utilized as a source of  
22 water from, or for disposal to, a formation other than the Unitized Formation, than  
23 the zone to be used for water production or disposal shall be substituted for the  
24 Unitized Formation in the application of this Section, provided, that, with regard  
25 to Section 11.1.4, the criteria shall be that the well shall be sufficiently free of  
26 scale, junk and debris for the wells intended purpose.  
27

28 **11.2 Wellbores Made Usable.** After the Effective Date, but within the two (2) year  
29 period described in Section 11.3 below, the Unit Operator shall determine which wells may be  
30 accepted as Usable in accordance with the criteria set out in Section 11.1.  
31

32 **11.2.1 Testing and Remedial Work Performed by Wellbore Owner.** The tests  
33 required to demonstrate a wellbore's compliance with the requirements of Section  
34 11.1 may be performed by the owners of the wellbore at their risk and expense,  
35 provided that the procedures for such testing shall be approved in advance by Unit  
36 Operator, Unit Operator shall have the right to witness such tests, and Unit  
37 Operator shall make the final determination of whether a wellbore is Usable based  
38 on the results of such tests. Within thirty (30) days of being notified by Unit  
39 Operator that a wellbore has been determined not be Usable, the owners of such  
40 wellbore may elect to perform workover operations, at their sole risk and expense,  
41 to attempt to make a deficient well Usable, but the Unit Operator reserves the  
42 right to review and approve any of the workover procedure(s). The Unit Operator  
43 must be notified at least five (5) days prior to commencement of workover  
44 operations and Unit Operator's representatives must be permitted to witness such  
45 operations and such work must be completed within sixty (60) days of its  
46 commencement, unless an extension of such sixty (60) day period is granted by

Unit Operator.

**11.2.2 Testing and Remedial Work Performed by Unit Operator.** At any time within six months after the Effective Date, any wellbore owner may request that any testing required under Section 11.1 and/or any remedial work required to make a wellbore Usable be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine that the required testing or remedial work is technically feasible and can be performed on a timely basis, then the Unit Operator may, at its sole discretion, agree to perform the required testing and/or remedial work. The wellbore owners shall bear the sole cost, risk, and expense of such testing and/or remedial work and the cost incurred by Unit Operator shall be reimbursed by the wellbore owners.

**11.3 Wellbores Accepted as Usable.** Any wellbore which is to be contributed to the Unit shall not be accepted as Usable until it can be assessed pursuant to Sections 11.1 and 11.2 hereof. Notwithstanding the foregoing any well not so assessed within two (2) years following the Effective Date of the Unit shall be deemed not Usable. Notwithstanding the foregoing, if, at any time prior to the two (2) year period provided for herein, a workover is to be performed for the benefit of the Unit on a wellbore that has not yet been determined to be Usable, Unit Operator shall notify the owners of such wellbore, and said owners shall have thirty (30) days to perform the testing required under Section 11.1, or request that Unit Operator perform such testing pursuant to Section 11.2.2, and the provisions of said Section 11.2 shall apply to any remedial work which may be required as a result of such testing.

**11.4 Wellbores Not Accepted as Usable.** Any wellbore that (1) is operated or owned by a Working Interest Owner, (2) is within the Unit area, (3) has previously been completed in the Unitized Formation or is suspected of being in pressure communication with the Unitized Formation, and (4) is not accepted as Usable by the Working Interest Owners pursuant to the terms hereof, must either be plugged and abandoned by the owner or isolated from the Unitized Formation and must pass a casing integrity pressure test as described in Section 11.1.2 to verify that isolation. Said test to be performed at the expense of the owner of the well provided that Unit Operator shall be given forty eight (48) hours notice of such test and shall have the opportunity to witness the test. In the event that any owner fails to comply with the pressure test request or to remedy any pressure communication conditions, the Unit Operator shall have the right to withhold production funds or credits from the non-complying owner(s) until such time as testing compliance is achieved, and any pressure communication is remedied.

## ARTICLE 12 NON-CONSENT PROVISION

**12.1 Election.** It is understood and agreed that any Working Interest Owner may elect to be carried hereunder, subject to the following terms and conditions: Working Interest Owners' ratification of the Unit Agreement and Unit Operating Agreement shall include a section under which a party may elect: (a) whether it wishes to be carried; and (b) if it elects not to be carried,

1 the amount of Working Interest as to which it is willing to assume additional participation  
2 pursuant to the terms hereof. In the event that, following the receipt of the Working Interest  
3 Owners' ratifications by Unit Operator, the Working Interest Owners, collectively, have not  
4 agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit  
5 Operator may elect to assume additional participation and/or may contact the Working Interest  
6 Owners that have agreed to participate to determine whether they wish to increase their share of  
7 participation. If, following such contact, the Working Interest Owners, collectively, have still not  
8 agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit  
9 Operator shall not proceed with the Unitization which is the subject of this agreement. It is  
10 understood and agreed that, if the Unit Operating Agreement and the Unit Agreement do become  
11 effective under the respective terms thereof, and any parties that did not previously ratify the  
12 Unit Operating Agreement and the Unit Agreement, nevertheless become Working Interest  
13 Owners as a result of the Oil Conservation Division of the State of New Mexico (the "Division")  
14 approving this Unit pursuant to the New Mexico Statutory Unitization Act, such Working  
15 Interest Owners shall have the right to elect to participate in the Unit and to elect an amount of  
16 additional participation that they are willing to assume within thirty (30) days after said approval  
17 by the Division. Once all parties have made the elections allowed under the provisions hereof,  
18 the interest of those Working Interest Owners that have elected to be carried shall be allocated  
19 among those Working Interest Owners that have elected to participate in proportion to their  
20 Working Interest in the Unit, provided that no Working Interest Owner shall be allocated any  
21 additional participation in excess of the amount of participation which said Working Interest  
22 Owner has elected to assume.

23  
24 **12.2 Non-Consent Penalty.** The entire cost and risk of conducting operations shall be borne  
25 by the Working Interest Owners in the proportion that they have elected to participate pursuant to  
26 the terms hereof (hereinafter, such Working Interests Owners shall be referred to as "Consenting  
27 Parties"). Each Working Interest Owner that has elected to be carried (hereinafter, such Working  
28 Interest Owners shall be referred to as "Non-Consenting Parties") shall be deemed to have  
29 relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to  
30 receive, in proportion to their respective interests, all of such Non-Consenting Parties' share of  
31 Unit Production (including its share of any Outside Substances produced and sold) until the  
32 proceeds of the sale of such share, calculated at the well, or the market value thereof if such share  
33 is not sold (after deducting production taxes, excise taxes, royalty or/and overriding royalty  
34 payable out of or measured by the production from such well accruing with respect to such  
35 interest) shall equal the Unit Expense accruing for such interest plus an amount equal to 200% of  
36 all of such Unit Expense allocated to such Non-Consenting Parties' Working Interest, it being  
37 further understood and agreed that the unpaid balance of any amount payable out of a Non-  
38 Consenting Party's interest hereunder (including the additional 200% of such expenses provided  
39 for above) shall bear interest at the rate of 2% above prime rate as established by the Chase  
40 Manhattan Bank of New York City to be determined monthly, or at the maximum contract rate  
41 permitted by the applicable usury laws, whichever is the lesser. It is expressly understood and  
42 agreed that, notwithstanding anything contained herein to the contrary, the 200% penalty  
43 provided for above shall be applied as follows: For any month in which a Non-Consenting  
44 Party's share of Unit Expenses exceeds its share of Unit Revenues, the 200% penalty shall be  
45 applied to the difference between such expenses and revenues, and the resulting amount shall be  
46 added to the Non-Consenting Party's unpaid balance. For any month in which a Non-Consenting

1 Party's share of Unit revenues exceeds its share of Unit expenses, no penalty shall be charged on  
2 such expenses, and the difference between such revenues and expenses shall be applied to such  
3 Non-Consenting Party's unpaid balance.  
4

5 **12.3 Handling of Inventory Adjustment for Non-Consent Parties.** It is understood and  
6 agreed that Unit Operator shall promptly provide Working Interest Owners with notification of  
7 the approval of the inventory and valuation pursuant to Article 10, and that, with regard to any  
8 Working Interest Owner that has elected to be carried under Section 12.1, and has not had its  
9 Working Interest revert to it pursuant to the terms hereof, the following shall apply: (i) if such  
10 Working Interest Owner has a net charge against its interest following the inventory adjustment,  
11 such charge shall be considered an expense in the month in which the inventory adjustment is  
12 applied and shall be treated as any other expense under Sections 12.1 and 12.2 (ii) if such  
13 Working Interest Owner has a net credit against its interest following the inventory adjustment,  
14 the amount of such credit shall be applied to the outstanding balance of such Working Interest  
15 Owner in the same manner as revenue in the month in which the inventory adjustment is applied,  
16 and if the amount of such credit is sufficient for the Working Interest of such Working Interest  
17 Owner to revert to it pursuant to the terms hereof, such Working Interest shall revert, and the  
18 amount of any net credit remaining shall be paid to Working Interest Owner.  
19

20 **12.4 Payoff of Non-Consent Party's Unpaid Balance.** Any Non-Consenting Party shall have  
21 the right, at any time, to pay off the amount of its net unpaid balance and, in the event that any  
22 Non-Consenting Party exercises this right, the Working Interest of such Non-Consenting Party  
23 shall revert to it on the month following the month of such payment.  
24

## 25 **ARTICLE 13**

### 26 **UNIT EXPENSE**

27

28 **13.1 Discharge of Unit Expense.** Unit Operator initially shall pay and discharge all Unit  
29 Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit  
30 Expense. Each Working Interest Owner's share shall be the same as its Unit Participation.  
31

32 **13.2 Budgets.** Before or as soon as practical after the Effective Date, Unit Operator shall  
33 prepare a budget of estimated Unit Expense (including but not limited to charges for Outside  
34 Substances) for the remainder of the calendar year. On or before the first day of each October  
35 thereafter or within 60 days of the Effective Date if the Effective Date is after August 1, Operator  
36 shall prepare a budget for the ensuing calendar year. Budgets shall be estimates only. A copy of  
37 each budget will be furnished to each Working Interest Owner.  
38

39 **13.3 Advance Billing.** Unit Operator shall have the right to require Working Interest Owners  
40 to advance their respective shares of estimated Unit Expenses, including charges for Outside  
41 Substances, in accordance with Exhibit "F"  
42

43 **13.4 Commingling of Funds.** No funds received by Unit Operator under this Agreement need  
44 be segregated or maintained by it as a separate fund, but may be commingled with its own funds.  
45

46 **13.5 Lien and Security Interest of Unit Operator.** In order to secure payment by Working

1 Interest Owners of amounts due Operator from time to time under the terms hereof as its share of  
2 expense, plus interest thereon as provided in section 13.6 hereof, Working Interest Owners  
3 hereby grant to Operator the following: (1) A lien and mortgage covering all of Working Interest  
4 Owners' leasehold, unleased mineral or other Working Interest in and under the Unitized Lands  
5 which are of record as of the date hereof or hereafter acquired by Working Interest Owners; (2) A  
6 lien and mortgage covering, and a security interest in, Working Interest Owner's undivided  
7 portion of the Unit Equipment; (3) A security interest in Working Interest Owners' undivided  
8 portion of the oil and/or gas when extracted from the Unitized Lands and in the accounts arising  
9 from the sale by Working Interest Owners of such oil and gas; (4) A lien and security interest  
10 covering all contract rights, general intangibles, interests in partnerships or other associations,  
11 and any other interests arising from the development of the Unitized Lands for oil and gas  
12 purposes; and (5) A lien and security interest covering the proceeds of the sale of any of the  
13 collateral referenced in (1)-(4) above, together with a lien and security interest attaching to the  
14 collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to  
15 which a party may be entitled by reason of exercise of any lien or security rights hereunder. In  
16 order to secure payment by Operator from time to time of its share of expense under the terms  
17 hereof, Operator has granted and does hereby grant to Working Interest Owners a lien and  
18 mortgage and a security interest of the same nature and effect as those described in the above.  
19 Each of the parties hereto hereby agrees to execute and provide, upon the request of any other  
20 party hereto, a "Notice of Lien and Mortgage-Financing Statement" in the form attached hereto  
21 as Exhibit "J", and authorizes any party hereto to file such instrument in the appropriate records  
22 of the county or counties where the contract lands are located and in the Uniform Commercial  
23 Code records of the appropriate Secretary of State's office and/or such other records as may be  
24 required under the Uniform Commercial Code of the State. To the extent that Operator has a  
25 security interest under the New Mexico Uniform Commercial Code Operator shall be entitled to  
26 exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the  
27 obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an  
28 election of remedies or otherwise affect the lien rights or security interest as security for the  
29 payment thereof. In addition, upon default by any Working Interest Owner in the payment of its  
30 share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or  
31 remedies, to collect from the purchaser the proceeds from the sale of such Working Interest  
32 Owner's share of Unitized Substances until the amount owned by such Working Interest Owner,  
33 plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written  
34 statement concerning the amount of any default.

35  
36 **13.6 Unpaid Unit Expense.** If any Working Interest Owner fails or is unable to meet its  
37 financial obligations in connection with the Unit then at the election of the Unit Operator, the  
38 unpaid balance of said Working Interest Owner's share of Unit Expense shall be carried and paid  
39 by all non-defaulting Working Interest Owners in the proportion that the Unit Participation of  
40 each bears to the total Unit Participation of all such Working Interest Owners (including Unit  
41 Operator). Such amount shall bear interest at the rate of 2% above prime rate as established by  
42 the Chase Manhattan Bank of New York City to be determined monthly, or at the maximum  
43 contract rate permitted by the applicable usury laws, whichever is the lesser. Working Interest  
44 Owners so paying the same shall be reimbursed therefore, together with interest thereon, if and  
45 when the amount so carried and the interest thereon are collected from the Working Interest  
46 Owner primarily chargeable therewith. The amount carried shall be due and payable out of the

proceeds from the defaulting Working Interest Owner's share of Unit Production including production of Outside Substances. During the time that any Working Interest Owner fails to pay its share of the Unit Expense, such Working Interest Owner shall be deemed to have surrendered and assigned its voting rights pursuant to this Agreement and the Unit Agreement to the non-defaulting Working Interest Owners in proportion to their Unit Participation in the Unit. 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 Expense charged against such Working Interest Owner.

**13.7 Penalty Provision.** In the event that any Working Interest Owner fails to pay any amounts due hereunder for a period of sixty (60) days after such amounts are due, Unit Operator shall have the right, but not the obligation, to serve a "Notice of Non-Consent" upon such Working Interest Owner, and, if such failure to pay is not cured within thirty (30) days thereafter, Unit Operator shall have the right to declare that such defaulting Working Interest Owner has elected to become a Non-Consenting Party, as provided for in Section 12.1 hereof, and that all unpaid sums shall be subject to repayment with a 200% penalty plus interest as though said Working Interest Owner had elected to be carried under said Section 12.1. The Operator shall be deemed the Consenting Party as to such defaulting Working Interest Owner's Working Interest provided that, it is understood and agreed that Unit Operator shall have the right, but not the obligation, to charge the non-defaulting Working Interest Owners with their proportionate part of any defaulting Working Interest Owner's expenses, and that, if Unit Operator so elects, all such non-defaulting Working Interest Owners shall be deemed to be Consenting Parties as to the defaulting Working Interest Owner's Working Interest as provided in Article 12.

**13.8 Carved-Out Interest.** If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Section 13.5 hereof entitled "Lien and Security Interest of Unit Operator." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 20 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 13.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

## ARTICLE 14 ENVIRONMENTAL LIABILITY

**14.1 Indemnity.** Each Working Interest Owner agrees to protect, indemnify and hold all other Working Interest Owners harmless against all claims, demands, damages, losses, liabilities, penalties, fines, liens, judgments, costs or expenses whatsoever, including, without limitation, attorney's fees and costs (hereinafter, such claims, demands, etc., shall be collectively referred to as "Claims") known, or unknown, foreseen or unforeseen, that may arise on account of or in



1 connection with any real or personal property or fixtures contributed to the Unit by the  
2 indemnifying Working Interest Owner, except to the extent that such Claim arises as a result of  
3 Unit Operations. It is understood that the term "Claims" shall include all matters pertaining to  
4 environmental and environmentally related laws, including, but not limited to the Comprehensive  
5 Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et  
6 seq.), the Resource Conservations and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.) the  
7 Clean Water Act (33 U.S.C. Section 466 et seq.), the Safe Drinking Water Act (14 U.S.C.  
8 Sections 1401-1450), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801 et  
9 seq.), the Toxic Substances Control Act (15 U.S. C. Sections 2601-2629) and any amendments  
10 thereto or regulations adopted thereunder, as well as any State statutes and regulations adopted  
11 pursuant to said Federal Laws.

12  
13 **14.2 Investigation.** At any time prior to, or within two (2) years after, the Effective Date, any  
14 Working Interest Owner hereto (or group of Working Interest Owners, acting together by  
15 agreement) shall have the right to conduct an investigation to determine and document the  
16 existence of any potential Claims associated with the Unit. The scope of such investigation shall  
17 be at the sole discretion of the Working Interest Owner conducting it. All other Working Interest  
18 Owners, including Operator (if Operator is not conducting the investigation) shall grant the  
19 Working Interest Owner conducting the investigation such access to all land, facilities and  
20 records as may be reasonably necessary to conduct such investigation. In the event that such  
21 investigation may require the disclosure of any information which the disclosing Working  
22 Interest Owner regards as proprietary or confidential, the disclosing Working Interest Owner may  
23 require that the Working Interest Owner conducting the investigation execute a confidentiality  
24 agreement imposing reasonable limits on the use and dissemination of such information. It is  
25 understood and agreed that the results of any investigation shall only be disclosed to the Working  
26 Interest Owner(s) that conduct said investigation, provided that, in the event that such  
27 investigation discloses the existence of any Claims, or of a situation that is reasonably likely to  
28 lead to the existence of a Claim in the future, the Working Interest Owner(s) that are contributing  
29 the property that is affected by such Claim or potential Claim and the Unit Operator shall be  
30 notified of the existence thereof, whether or not such parties participated in said investigation.

## 31 32 **ARTICLE 15** 33 **NON-UNITIZED FORMATIONS** 34

35 **15.1 Right to Operate.** Any Working Interest Owner that now has or hereafter acquires the  
36 right to drill for and produce oil, gas, or other minerals from a formation within the Unit Area,  
37 other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement  
38 or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall  
39 exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No  
40 Working Interest Owner shall produce Unitized Substances through any well drilled or operated  
41 by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the  
42 Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so  
43 that the production of Unitized Substances will not adversely be affected.

44  
45 **15.2 Multiple Completions.** No well shall be multiple completed to produce from the  
46 Unitized Formation and any other formation within the Unit Area without express approval of

1 the Working Interest Owners.

2  
3 **ARTICLE 16**  
4 **TITLES**  
5

6 **16.1 Warranty and Indemnity.** Each Working Interest Owner represents and warrants that it  
7 is the owner of the respective Working Interests set forth opposite its name in Exhibit "B", and  
8 hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss  
9 due to failure in whole or in part of its title to any such interest, except failure of title arising out  
10 of Unit Operations. Such indemnity shall be limited to an amount equal to the net value that has  
11 been received from the sale or receipt of Unitized Substances attributed to the interest as to  
12 which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is  
13 concerned, as of the first day of the calendar month in which such failure is finally determined,  
14 and there shall be no retroactive adjustment of Unit Expense or retroactive allocation of Unitized  
15 Substances or the proceeds therefrom, as a result of title failure.  
16

17 **16.2 Failure Because of Unit Operations.** The failure of title to any Working Interest in any  
18 Tract by reason of Unit Operations, including non-production from such Tract, shall not change  
19 the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit  
20 Participation of the other Working Interest Owners at the time of the title failure.  
21

22 **16.3 Waiver of Rights to Partition.** Each Working Interest Owner hereto agrees that, during  
23 the existence of this Agreement, it will not resort to any action to partition the interval of the  
24 formation Unitized hereunder or the Unit Equipment, and to that extent waives the benefits of all  
25 laws authorizing such partition.  
26

27 **ARTICLE 17**  
28 **LIABILITY, CLAIMS, SUITS, AND FORCE MAJEURE**  
29

30 **17.1 Individual Liability.** The duties, obligations and liabilities of Working Interest Owners  
31 shall be several and not joint or collective; and nothing herein contained shall ever be construed  
32 as creating a partnership of any kind, joint venture, association or trust among Working Interest  
33 Owners.  
34

35 **17.2 Liability for Claims and Judgments.** All damage or injury to the Unit or Unit  
36 Equipment shall be borne by the parties hereto in proportion to their interests therein. The  
37 liability, if any, of the parties hereto in damages for claims growing out of personal injury to or  
38 death from third parties or injury to or destruction of property of third parties resulting from the  
39 Unit Operations conducted hereunder including such liability as may result from the negligence  
40 (but not gross negligence or willful misconduct) of the Unit Operator shall be borne in proportion  
41 to their Unit Participation as of the date such liability arose, and each party individually may  
42 acquire such insurance as it deems proper to protect itself against such claims.  
43

44 **17.3 Settlements.** Unit Operator may settle any single damage claim or suit involving Unit  
45 Operations if the expenditure does not exceed One Hundred Thousand Dollars (\$100,000)  
46 provided the payment is in complete settlement of such claim or suit. If the amount required for

1 settlement exceeds the above specified amount, Working Interest Owners shall assume and take  
2 over the further handling of the claim or suit unless such authority is expressly delegated to Unit  
3 Operator. All costs and expense of handling, settling or otherwise discharging such claim or suit  
4 shall be an item of Unit Expense, subject to the provisions of Exhibit "F" Accounting Procedure.  
5 If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued  
6 on account of any matter arising from Unit Operations and over which such Working Interest  
7 Owner individually has no control because of the rights given Working Interest Owners and Unit  
8 Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall  
9 immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or  
10 suit involving Unit Operations.

11  
12 **17.4 Notices of Damages, Claims and Suits by Unit Operator to Working Interest**

13 **Owners.** Unit Operator shall report to Working Interest Owners as soon as practicable after each  
14 occurrence, damages or losses to Unit Equipment, and accidents, occurrences, claims or suits  
15 involving third party bodily injury or property damage which are not covered by insurance  
16 carried for the benefit of Working Interest Owners.

17  
18 **17.5 Force Majeure.** Any obligation imposed by this Agreement on each party, except for the  
19 payment of money, shall be suspended while compliance therewith is prevented, in whole or in  
20 part, by a strike, fire, war, civil disturbance, act of God; by Federal, state or municipal laws; by  
21 any rule, regulation or order of a governmental agency; by inability to secure materials or by any  
22 other cause beyond the reasonable control of such party. No party shall be required against its  
23 will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other  
24 instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due  
25 to any of the causes set forth in this Section.

26  
27 **ARTICLE 18**  
28 **INTERNAL REVENUE PROVISION**  
29

30 **18.1 Internal Revenue Provision.** Each Working Interest Owner hereby elects that it and the  
31 operations covered by this Agreement may be excluded from the application of Subchapter K of  
32 Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or such portion thereof as the  
33 Secretary of the Treasury of the United States or his delegate shall permit by election to be  
34 excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each  
35 Working Interest Owner such additional or further evidence of the election as may be required by  
36 regulations issued under said Subchapter K. Should the regulations require each party to execute  
37 such further evidence, each Working Interest Owner agrees to execute or join in the execution  
38 thereof. The election hereby made and the other provisions of this paragraph shall apply in like  
39 manner to applicable state laws, regulations and rulings now in effect or hereafter enacted that  
40 have an effect similar to the Federal provisions referred to herein.

41  
42 **ARTICLE 19**  
43 **NOTICES**  
44

45 **19.1 Notices.** All notices required hereunder shall be in writing and shall be deemed to have  
46 been properly served when sent by mail, facsimile or telegram to the address of the

1 representative of each Working Interest Owner as furnished to Unit Operator in accordance with  
2 Section 4.1.

3  
4 **19.2 Notice of Transfer of Title.** No change of title shall be binding on the Unit or Unit  
5 Operator until thirty (30) days after the first day of the calendar month next succeeding the date  
6 of receipt by Unit Operator of evidence, satisfactory to it, of such change or ownership. Each  
7 such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon  
8 the party or parties acquiring such interest the obligation of the predecessor in interest with  
9 respect to the interest so transferred and shall likewise operate to give and grant to the party or  
10 parties acquiring such interest all benefits attributable hereunder to such interest.

11  
12 **ARTICLE 20**  
13 **WITHDRAWAL OF WORKING INTEREST OWNERS AND**  
14 **RESTRICTION OF DISPOSITION**  
15

16 **20.1 Withdrawal.** A Working Interest Owner may withdraw from this Agreement by  
17 transferring, without warranty of title, either expressed or implied, to the other Working Interest  
18 Owners who do not desire to withdraw, all its Oil and Gas Rights, together with its interest in  
19 Outside Substances and all Unit Equipment and in all wells used in Unit Operations, provided  
20 that such transfer shall not relieve such Working Interest Owner from any obligation or liability  
21 incurred prior to the first day of the month following receipt by Unit Operator of such transfer.  
22 The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred  
23 interest shall be owned by the transferees in proportion to their respective Unit Participation. The  
24 transferees, in proportion to the respective interest so acquired shall pay the transferor for its  
25 interest in Unit Equipment the net fair salvage value thereof (provided that, outside substances  
26 shall have no value with respect to this provision), less the transferor's share of the estimated cost  
27 of plugging and abandoning all wells then being used or held for Unit Operations, including all  
28 associated clean-up costs as determined by the Working Interest Owners. In the event such  
29 withdrawing Working Interest Owner's interest in the aforesaid salvage value is less than such  
30 Working Interest Owner's share of such estimated costs, the withdrawing Working Interest  
31 Owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of the  
32 transferees, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the  
33 transfer, Unit Operator shall render a final statement to the withdrawing Working Interest Owner  
34 for its share of Unit Expense, and any deficiency in salvage value. Provided all Unit Expense,  
35 including any deficiency in salvage value, as determined, hereunder, due from the withdrawing  
36 Working Interest Owner has been paid in full within thirty (30) days after the rendering of such  
37 final statement by the Unit Operator, the transfer shall be effective the first day of the month  
38 following its receipt by Unit Operator and, as of such effective date, the withdrawing Working  
39 Interest Owner shall be relieved from all further obligations and liabilities hereunder and under  
40 the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and  
41 under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.  
42 Notwithstanding anything contained herein to the contrary, it is understood and agreed that a  
43 withdrawing Working Interest Owner shall remain fully liable for any Claims (as defined in  
44 Section 14.1) to the extent that such Claims arise as a result of Unit Operations conducted while  
45 said Working Interest Owner owned its Working Interest, except to the extent that such Claims  
46 are covered by amounts deducted under this Section to cover the costs of clean-up, and it is

understood and agreed that such continued liability shall be reflected in the documents by which such withdrawal is implemented.

**20.2 Restriction of Disposition and Withdrawal.** A Working Interest Owner shall not make any disposition of a Working Interest which does not include a corresponding interest in the Unit Equipment. No Working Interest shall be owned apart from a corresponding interest in the Unit Equipment and vice versa. Notwithstanding anything set forth herein, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of 18.75% unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens. No Working Interest Owner shall be relieved of its obligations hereunder during a blowout, a fire, or other emergency, but may withdraw from this agreement after termination of such emergency, provided such Working Interest Owner shall remain liable for its share of all costs arising from said emergency.

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

## **ARTICLE 21 ABANDONMENT OF WELLS**

**21.1 Rights of Former Owners.** If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, the Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days or such lesser period as may be required to be utilized in order to allow Unit Operator to comply with applicable laws and regulations regarding the plugging of wells 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 amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well, if any, less the estimated plugging costs provided that in no event shall the Unit be obligated to pay any amount in exchange for a Working Interest Owner's assumption of plugging costs hereunder.

The Working Interest Owners of the Tract by accepting the assignment of the wellbore agree to be fully responsible and liable for the well thereafter, to seal off effectively and protect the

Unitized Formation as set out in Section 11.4 within sixty (60) days of receiving such assignment, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

## **ARTICLE 22 EFFECTIVE DATE AND TERM**

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

**22.2 Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; (c) any cleanup operations pertaining to the Unit that are required by applicable laws and regulations have been completed, and (d) there has been a final accounting.

## **ARTICLE 23 ABANDONMENT OF OPERATIONS**

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

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

**23.1.2 Right to Operate.** Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, if any, of the casing and equipment in and on the wells taken over, less estimated plugging costs, for the wells as estimated by Working Interest Owners, provided that in no event shall the Unit be obligated to pay any amount in exchange for a Working Interest Owner's assumption of plugging costs hereunder, and by agreeing to plug properly each such well at such time as it is abandoned.

**23.1.3 Salvaging Wells.** Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owner of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

23.1.4 **Cost of Salvaging.** The cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations shall constitute a Unit Expense to be borne by the Working Interest Owners in proportion to their respective Unit Participations.

**ARTICLE 24  
SIGNING, RATIFICATION, OR APPROVAL**

24.1 **Original, Counterparts, or Ratification.** This Agreement may be signed, ratified or approved by signing the original of this instrument, a counterpart or other instrument adopting the provisions hereof, all with the same effect as if all persons had signed the same instrument. Persons signing, ratifying or otherwise approving this Agreement thereby agree to all of the provisions hereof.

24.2 **Prior Agreements.** It is recognized there are certain existing agreements by and between several of the Working Interest Owners hereto, covering a portion of the Oil and Gas Rights subject to this Operating Agreement. In case of any inconsistency or conflict between this Operating Agreement and those certain existing agreements, excluding the Unit Agreement, this Operating Agreement shall govern.

**ARTICLE 25  
SUCCESSORS AND ASSIGNS**

25.1 **Successors and Assigns.** The provisions hereof shall be covenants running with the lands, leases and interests covered hereby and shall be binding upon and inure to the benefit of the respective heirs devisees, legal representatives, successors and assigns of the parties hereto.

**UNIT OPERATOR AND WORKING INTEREST OWNER**

Executed this \_\_\_\_ day of \_\_\_\_\_, 199\_\_

Attest

Exxon Corporation

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

Unit Operator  
Attorney In Fact

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

Working Interest Owner

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Working Interest Owner

**CORPORATION**

**STATE OF** \_\_\_\_\_

**COUNTY OF** \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 199\_, by \_\_\_\_\_ as \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ Corporation, on behalf of this Corporation.

WITNESS my hand and official seal.

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

My Commission expires:

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19 a \_\_\_\_\_ Corporation, on behalf of this Corporation.  
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21 WITNESS my hand and official seal.  
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24 Notary Public

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31 **TRUST OR OTHER PARTY ACTING THROUGH AN AGENT OR**  
32 **REPRESENTATIVE**  
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Notary Public

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\_\_\_\_\_ County, \_\_\_\_\_

**STATE OF** \_\_\_\_\_

**COUNTY OF** \_\_\_\_\_

The foregoing instrument was acknowledged before me

this \_\_\_\_\_ day of \_\_\_\_\_, 199\_, by \_\_\_\_\_

as \_\_\_\_\_ of \_\_\_\_\_

a \_\_\_\_\_, on behalf of said \_\_\_\_\_

WITNESS my hand and official seal.

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

My Commission expires:

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\_\_\_\_\_ County, \_\_\_\_\_

**INDIVIDUAL**

**STATE OF** \_\_\_\_\_

**COUNTY OF** \_\_\_\_\_

The foregoing instrument was acknowledged before me this

\_\_\_\_\_ day of \_\_\_\_\_, 199\_, by

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• WITNESS my hand and official seal.

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Notary Public

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**STATE OF** \_\_\_\_\_

**COUNTY OF** \_\_\_\_\_

The foregoing instrument was acknowledged before me this  
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WITNESS my hand and official seal.

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Notary Public

My Commission expires:

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1 NOTE: Instructions For Use of Gas Balancing  
2 Agreement MUST be reviewed before finalizing this  
3 document.

## EXHIBIT "G"

GAS BALANCING AGREEMENT ("AGREEMENT")  
ATTACHED TO AND MADE PART OF THAT CERTAIN  
OPERATING AGREEMENT DATED \_\_\_\_\_

11 BY AND BETWEEN Exxon Corporation  
12 AND Yates Petroleum Corporation et al ("OPERATING AGREEMENT")  
13 RELATING TO THE Avalon (Delaware) Unit AREA.  
14 Eddy COUNTY/~~PARISH~~ STATE OF New Mexico

## 1. DEFINITIONS

The following definitions shall apply to this Agreement:

1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price, and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.

1.02 "Balancing Area" shall mean (select one):

☐ each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.

☒ all of the acreage and depths subject to the Operating Agreement.

1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.

1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.

1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.

1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.

1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.

1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.

1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

1.16 ☐ (Optional) "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.

## 2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in (Alternative 1) ☒ Mcfs or (Alternative 2) ☐ MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

## 3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

#### 4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following at least fifteen (15) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying twenty five percent (25 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than twenty five percent (25 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

4.2 ☐ (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the \_\_\_\_\_ (\_\_\_\_\_) months immediately preceding the Winter Period.

4.2 ☐ (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than \_\_\_\_\_ percent (\_\_\_\_\_) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 ☐ (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to \_\_\_\_\_ percent (\_\_\_\_\_) of such Overproduced Party's Full Share of Current Production.

#### 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 21, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

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

#### 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

6.2 ☒ (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty

owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.

6.2.1 ☐ (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5.

6.2 ☐ (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

## 7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

7.3 ☒ (Alternative 1 - Direct Party-to-Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.

7.3 ☐ (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

7.3.1 ☐ (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

7.4 ☒ (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

7.4 ☐ (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

7.5.1 ☒ (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the Overproduction.

7.5.2 ☐ (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.

7.5.2 ☒ (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

7.7 Interest compounded at the prime rate in effect at Citibank, N.A. of New York plus 1% per annum of the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

7.9 ☒ (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.

7.10 ☒ (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30) days after the settlement is made.

## 8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after thirty (30) days' prior written notice to the Operator and shall last no longer than seventy two (72) hours.

## 9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

## 10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

## 11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Btu-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

## 12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, 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 Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives



and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected; and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to include an associated Optional provision.

12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.

12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one) ☐ as if such Party were taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax computations; or ☐ based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations.

### 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

13.2 ☒ (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least sixty (60) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within thirty (30) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.

13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

### 14. OTHER PROVISIONS

1 15. COUNTERPARTS

2 This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute  
3 a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in  
4 the Balancing Area equal to or greater than a 66 and 2/3 percent (66 2/3%) therein fail(s) to execute this  
5 Agreement on or before January 1, 1996 this Agreement shall not be binding upon any Party and shall be of  
6 no further force and effect.

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_,  
8 19\_\_\_\_.

10 ATTEST OR WITNESS:

OPERATOR

11 \_\_\_\_\_  
12 EXXON CORPORATION

13 BY: \_\_\_\_\_

14 \_\_\_\_\_  
15 Type or print name

16 Title \_\_\_\_\_

17 Date \_\_\_\_\_

18 Tax ID or S.S. No. \_\_\_\_\_

19 NON-OPERATORS

20 \_\_\_\_\_  
21 BY: \_\_\_\_\_

22 \_\_\_\_\_

23 \_\_\_\_\_  
24 Type or print name

25 Title \_\_\_\_\_

26 Date \_\_\_\_\_

27 Tax ID or S.S. No. \_\_\_\_\_

28 \_\_\_\_\_  
29 BY: \_\_\_\_\_

30 \_\_\_\_\_

31 \_\_\_\_\_  
32 Type or print name

33 Title \_\_\_\_\_

34 Date \_\_\_\_\_

35 Tax ID or S.S. No. \_\_\_\_\_

36 \_\_\_\_\_

37 \_\_\_\_\_

38 \_\_\_\_\_

39 \_\_\_\_\_

40 \_\_\_\_\_

41 \_\_\_\_\_

42 \_\_\_\_\_

EXHIBIT "H"			
LIST OF WELL BORES			
WELL			WELL
TRACT	OPERATOR	LEASE	NUMBER
2711	EXXON	BURTON FLAT SECTION 6 STATE	1
2709	EXXON	BURTON FLAT SECTION 6 STATE	3
1919	EXXON	HONDO A STATE	1
2119	EXXON	HONDO A STATE	2
2319	EXXON	HONDO A STATE	3
2519	EXXON	HONDO A STATE	4
2321	EXXON	HONDO FEE	2
2315	EXXON	YATES C FEDERAL	2
2313	EXXON	YATES C FEDERAL	10
	EXXON	YATES C FEDERAL	22
2515	EXXON	YATES C FEDERAL	11
2317	EXXON	YATES C FEDERAL	12
2311	EXXON	YATES C FEDERAL	13
2517	EXXON	YATES C FEDERAL	14
2511	EXXON	YATES C FEDERAL	15
1913	EXXON	YATES C FEDERAL	17
2315	EXXON	YATES C FEDERAL	18
1915	EXXON	YATES C FEDERAL	3
2719	EXXON	YATES C FEDERAL	35
2016	EXXON	YATES C FEDERAL	36
1917	EXXON	YATES C FEDERAL	4
1911	EXXON	YATES C FEDERAL	5
2113	EXXON	YATES C FEDERAL	6
2115	EXXON	YATES C FEDERAL	7
2111	EXXON	YATES C FEDERAL	8
2117	EXXON	YATES C FEDERAL	9
2309	MWJ	GWA STATE	1
2509	MWJ	GWA STATE	2
1709	PREMIER	EDDY FV STATE	3
1909	YATES	CITIDEL ZG	1
1311	YATES	STONEWALL EP ST	5
1111	YATES	STONEWALL EP ST	7
1313	YATES	STONEWALL EP ST	8
1715	YATES	STONEWALL WM ST	1
1717	YATES	STONEWALL WM ST	2
1713	YATES	STONEWALL WM ST	3
1711	YATES	STONEWALL WM ST	4
1513	YATES	STONEWALL WM ST	5
1511	YATES	STONEWALL WM ST	6
1515	YATES	STONEWALL YE STATE	1

EXHIBIT "I"

MEMORANDUM OF OPERATING AGREEMENT AND  
NOTICE OF LIEN AND MORTGAGE — FINANCING STATEMENT  
(EXXON-OPERATOR)

Attached to that certain Operating Agreement dated \_\_\_\_\_, 19\_\_\_\_, between Exxon Corporation, as Operator, and Yates Petroleum Company, et al., as Non-Operators.

STATE OF NEW MEXICO §

COUNTY OF EDDY §

EXXON CORPORATION ("Operator") and the undersigned \_\_\_\_\_ ("Non-Operator") have entered into an Operating Agreement providing for the development and production of crude oil, natural gas and associated substances, dated \_\_\_\_\_, 19\_\_\_\_, covering the following described lands:

Those lands as described in Exhibit "B" to the Unit Agreement for the Development and Operation of the Avalon (Delaware) Unit.

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

Without limiting or superseding the liens and security interests provided for in the Operating Agreement and in order to further secure payment by Non-Operator of amounts due Operator from time to time under the terms of the Operating Agreement as its share of expense, Non-Operator has granted and does hereby grant to Operator, its successors and assigns, the following:

1. A lien and mortgage covering all of Non-Operator's leasehold, unleased mineral or other working interest in and under the above-referenced lands which are of record as of the date hereof or hereafter acquired by Non-Operator.
2. A lien and mortgage covering, and a security interest in, the undivided portion of the equipment located on the above-referenced lands, including fixtures, which is employed in the production of oil and/or gas therefrom and is owned as of the date hereof or hereafter acquired by Non-Operator.
3. A security interest in Non-Operator's undivided portion of the oil and/or gas when extracted from the above-referenced lands and in the accounts arising from the sale by Non-Operator of such oil and gas, and in rights under any gas balancing agreements.
4. A lien and security interest covering all contract rights, general intangibles, interests in partnerships or other associations, and any other interests arising from the development of the above described lands for oil and gas purposes.
5. A lien and security interest covering the proceeds of the sale of any of the collateral referenced in 1-4 above, together with a lien and security interest attaching to the collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to which a party may be entitled by reason of exercise of any lien or security rights hereunder.

In order to secure payment by Operator from time to time of its share of expense under the above-referenced Operating Agreement, Operator has granted and does hereby grant to Non-Operator and the other parties to said Operating

Agreement who execute this instrument a lien and mortgage and a security interest of the same nature and effect as those described in the preceding paragraph.

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

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

1. That a party's ability to freely sell, assign, or transfer interests in land committed to the agreement is restricted or encumbered. These restrictions or encumbrances may include a preferential right to purchase the interest of any party desiring to sell its interest under the agreement, restrictions on the surrender of leases, a maintenance of uniform interest provision, provisions applicable to renewal or extension of leases, provisions applicable to acreage or cash contributions, non-consent provisions, and gas storage and balancing provisions, among others.
2. That each party to the agreement has the right to take-in-kind or separately dispose of its proportionate share of oil and gas produced.
3. That the liability of the parties to the agreement is several, and not joint and collective, with each party being liable only for its proportionate share of costs of developing and operating the contract area.

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

Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to:

Exxon Corporation  
P. O. Box 1600  
Midland, Texas 79702-1600  
Attention: Division Land Supervisor

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

EXECUTED on the date set forth by each party's signature below, but EFFECTIVE  
as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

EXXON CORPORATION, Operator

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

ADDRESS: P. O. Box 1600  
Midland, Texas 79702-1600  
TAX I.D. NO.: 13-5409005

\_\_\_\_\_ (Non-Operator)

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

ADDRESS: \_\_\_\_\_  
\_\_\_\_\_

TAX I.D. NO: \_\_\_\_\_  
\_\_\_\_\_

STATE OF TEXAS §  
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_ as Attorney-in-fact  
for and on behalf of EXXON CORPORATION a New Jersey corporation.

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

My commission expires: \_\_\_\_\_  
Notary Public

STATE OF §  
COUNTY OF §

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 19\_\_\_\_, by \_\_\_\_\_ as  
\_\_\_\_\_ for and on behalf of \_\_\_\_\_  
a \_\_\_\_\_  
corporation.

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

My commission expires: \_\_\_\_\_  
Notary Public

EXHIBIT "J"

NON-DISCRIMINATION AND CERTIFICATE OF NON-SEGREGATED FACILITIES

Attached to that certain Operating Agreement dated \_\_\_\_\_, 19\_\_\_\_  
between Exxon Corporation, as Operator,  
and Yates Petroleum Company et al, as Non-Operator(s).

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the operator agrees as follows:

- 1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provision of this non-discrimination clause.
- 2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- 3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- 5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- 6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rules, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of paragraphs 1) through 7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of

enforcing such provisions including sanctions for non-compliance. Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

## II. CERTIFICATION OF NON-SEGREGATED FACILITIES

- 1) Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.
- 2) Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.
- 3) Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. Paragraph 1001.

## III. OCCUPATIONAL SAFETY AND HEALTH ACT

Operator will observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Part 1518 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.

## IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000 or more which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

### "CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

- 1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the



one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

- 2) The contractor agrees to place the above provisions in any subcontract directly under this contract."

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Operator agrees to comply with the Clean Air Act (42 U.S.C. Paragraph 1857) and the Federal Water Pollution Control Act (33 U.S.C. Paragraph 1251) when conducting operations involving nonexempt contracts. In all nonexempt contracts with subcontractors, Operator shall require:

- 1) No facility to be utilized by Subcontractor in the performance of this contract with Operator is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR Paragraph 15.20.
- 2) Prompt written notification shall be given by Subcontractor to Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.
- 3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. Paragraph 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. Paragraph 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.
- 4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR Paragraph 15.4 & 5.
- 5) Operator agrees to notify non-operators of any violations in the afore provisions.

VI. Operator agrees to comply with Executive Orders 11458 and 11625 regarding Minority Business Enterprises and all orders, rules, and regulations issued thereunder or amendments thereto.

VII. Operator agrees to comply with Rehabilitation Act of 1973 and all orders, rules, and regulations issued thereunder and amendments thereto.