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*Case 14504*

April 27, 2010

Florene Davidson  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing, on behalf of Celero Energy II, L.P., are an original and one copy of an application for statutory unitization, etc., together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the May 27, 2010 Examiner hearing. Thank you. The parties being notified are listed on Exhibit A.

Very truly yours,



James Bruce

Attorney for Celero Energy II, L.P.

EXHIBIT "C"  
UNIT OPERATING AGREEMENT  
ROCK QUEEN UNIT  
LEA AND CHAVES COUNTIES, NEW MEXICO

<u>WORKING INTEREST OWNERS</u>	<u>UNIT INTERESTS</u>
Celero Energy , II LP 400 West Illinois Ave., Suite 1601 Midland, Texas 79701	.99595516
John Owen 2282 Highway 15 Rayville, LA 71269	.00008982
Robert Owen 3535 Gillespie St. Dallas, TX 75219	.00008982
Mark Mourne 605 Canon Ridge Trail Canon City, CO 81212-9130	.00067068
Lisa Owen 7729 Idlewood Dallas, TX 75230	.00008982
Jean Elizabeth Summers 1833 Earlmont Ave. La Canada Flintridge, CA 91011-1502	.00023916
Manforth Production Co., Inc. P. O. Box 508 Locust Valley, New York 11560 Attn: Theodore N. Danforth	.00032507
OBO Inc. P. O. Box 22577 Hialeah, Florida 33002 Attn: Cathy Rangel	.00081274
Circle Ridge Production, Inc. 300 East Northside Drive Fort Worth, Texas 76106 Attn: Doug Friedel	.00010226
Dorothy Elizabeth Clardy Barnette 4339 Potomoc Dallas, Texas 75205 Attn: Stephen Barnette	.00162547
TOTAL	<u>1.00000000</u>

EXHIBIT

A

PROPOSED ADVERTISEMENT

Case No. 14504

***Application of Celero Energy II, LP to amend the Unit Agreement and the Unit Operating Agreement for the Rock Queen Unit, and for statutory unitization, Chaves and Lea Counties, New Mexico.*** Applicant seeks an order amending the Unit Agreement and Unit Operating Agreement, and statutorily unitizing all mineral interests in, the Queen formation in the previously approved Rock Queen Unit underlying 4939.77 acres of federal, state, and fee lands covering all or parts of Sections 22-27 and 34-36 of Township 13 South, Range 31 East, N.M.P.M., and Sections 19, 30, and 31 of Township 13 South, Range 32 East, N.M.P.M. Among the matters to be considered at hearing, pursuant to the New Mexico Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.*, will be: The necessity of unit operations; 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 tracts in the unit area; the determination of credits and charges to be made among the working interest owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate. The unit area is centered approximately 17 miles south-southwest of Caprock, New Mexico.

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BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF CELERO ENERGY II, LP  
TO AMEND THE UNIT AGREEMENT AND THE  
UNIT OPERATING AGREEMENT FOR THE  
ROCK QUEEN UNIT, AND FOR STATUTORY  
UNITIZATION, CHAVES AND LEA COUNTIES,  
NEW MEXICO.

Case No. 14584

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APPLICATION

Celero Energy II, LP, for its application, states:

1. Applicant is engaged in the business of producing and selling oil and gas as defined in the Statutory Unitization Act, NMSA 1978 §§70-7-1 *et seq.* (the "Act").
2. Applicant is the operator of the Rock Queen Unit (the "Unit Area"). The Unit Area was approved by Commission Order No. R-1541, and covers the lands located in Chaves and Lea County, New Mexico described below:

Township 13 South, Range 31 East, N.M.P.M.

Section 22: E $\frac{1}{2}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$ , and E $\frac{1}{2}$ SW $\frac{1}{4}$   
Section 23: W $\frac{1}{2}$ NE $\frac{1}{4}$ , SE $\frac{1}{4}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ , and S $\frac{1}{2}$   
Section 24: SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 25: All  
Section 26: All  
Section 27: E $\frac{1}{2}$  and E $\frac{1}{2}$ NW $\frac{1}{4}$   
Section 34: NE $\frac{1}{4}$  and S $\frac{1}{2}$ NW $\frac{1}{4}$   
Section 35: N $\frac{1}{2}$ NW $\frac{1}{4}$   
Section 36: All

Township 13 South, Range 32 East, N.M.P.M.

Section 19: Lot 4, SW $\frac{1}{4}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , and SE $\frac{1}{4}$   
Section 30: Lots 1-4, NE $\frac{1}{4}$ , E $\frac{1}{2}$ W $\frac{1}{2}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ , and SW $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 31: Lot 1

Containing 4939.77 acres, more or less, of federal, state, and fee lands. A plat of the Unit Area is attached hereto as Exhibit A.

3. The vertical limits of the unitized formation are defined as:

That heretofore established underground reservoir, referred to as the "Queen Sand", being a member of the Queen Formation of the Guadalupe Series, a part of the Permian System, the top of which is found at 3,050 feet, and the base of which is found at 3,066 feet, on the Gamma Ray Neutron Log of the Gulf Oil Corporation, State of New Mexico 'BMC' No. 1 Well, located in the SE/4SE/4 of Section 23, Township 13 South, Range 31 East, N.M.P.M., insofar as same lies within the Unit Area.

The Queen reservoir underlying the Unit Area has been reasonably defined by development.

4. A waterflood project was previously approved for the Unit Area, as described in Commission Order Nos. R-1541. Applicant proposes to expand the waterflood (secondary recovery) project in the Unit Area, and to institute a tertiary project, as further described in an injection application filed concurrently with this application.

5. The Unit Area is subject to a voluntary Unit Agreement, approved by the Commission under statutes in effect in 1959 when the Unit Area was formed. Applicant proposes to amend the Unit Agreement to conform with current unitization practices and the Statutory Unitization Act. The amended plan of unitization for the Unit Area is embodied in the Amended Unit Agreement for the unit Area, which is attached hereto as Exhibit B. The amended plan of unitization is fair, reasonable, and equitable, and the participation formula contained therein allocates the produced and saved hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable, and equitable basis.

6. The Unit Area is subject to a voluntary Unit Operating Agreement, approved by the Commission under statutes in effect in 1959 when the Unit Area was formed. Applicant proposes to amend the Unit Operating Agreement to conform with current operating practices and the Statutory Unitization Act. The proposed operating plan for the Unit Area, covering the manner in which the Unit Area will be supervised and managed, and costs allocated and paid, is embodied in the proposed Unit Operating Agreement, which is attached hereto as Exhibit C.

7. The statutorily unitized management, operation, and further development of the Queen reservoir underlying the Unit Area is reasonably necessary in order to effectively carry on secondary and tertiary operations and to substantially increase the ultimate recovery of oil and gas therefrom.

8. The secondary and tertiary project, as applied to the Queen reservoir underlying the Unit Area, is feasible, will prevent waste, and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Queen reservoir than would otherwise be recovered.

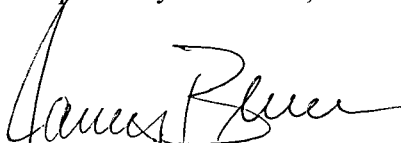
9. The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas recovered thereby, plus a reasonable profit.

10. Unitization and approval of the waterflood project will benefit the working interest owners and royalty owners in the Queen reservoir underlying the Unit Area.

11. Approval of this application will prevent waste and protect correlative rights.

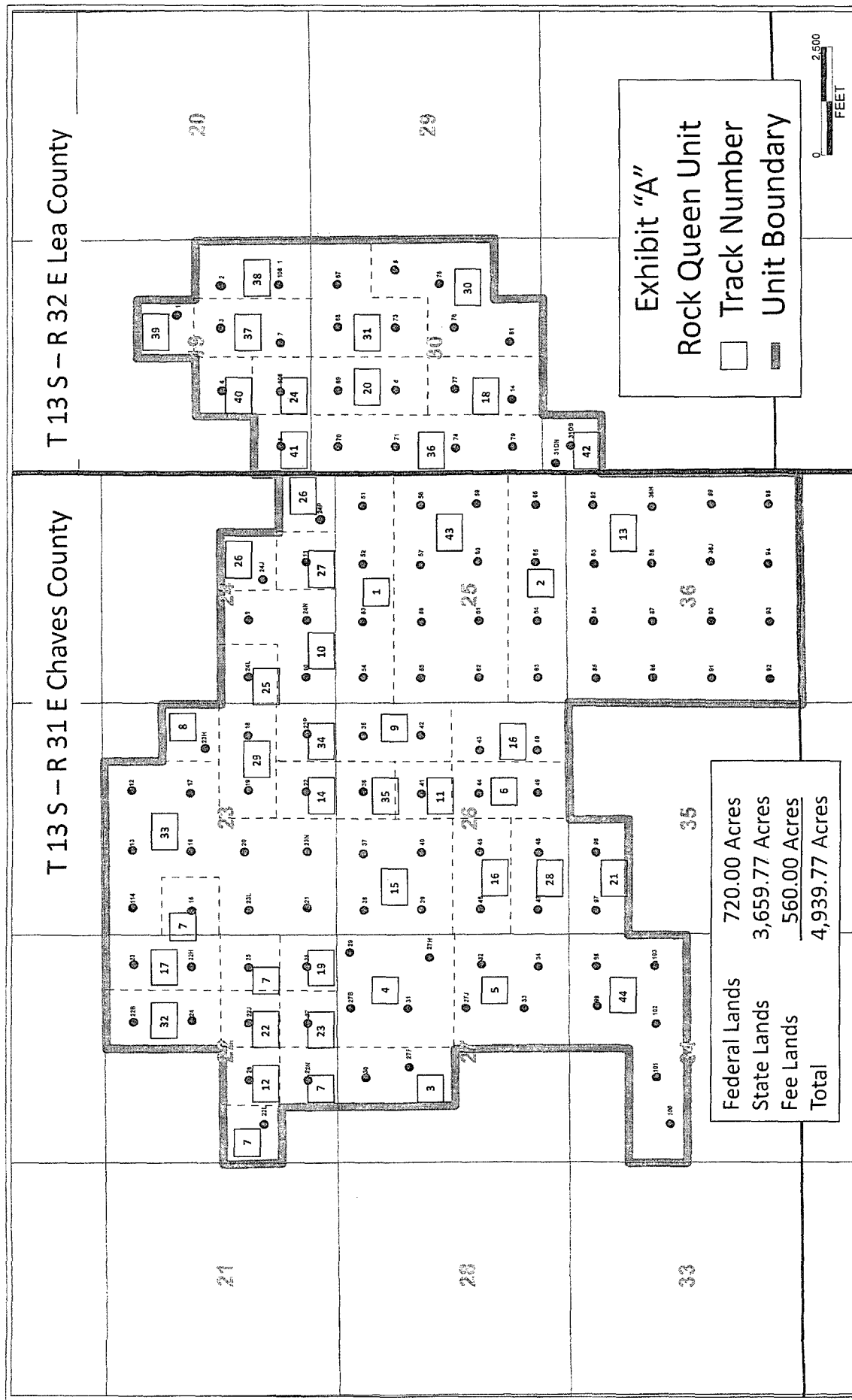
**WHEREFORE**, Beach requests that, after notice and hearing, the Division enter its order approving statutory unitization of the Rock Queen Unit and approving the Unit Agreement and Unit Operating Agreement attached hereto.

Respectfully submitted,



James Bruce  
Post Office Box 1056  
Santa Fe, New Mexico 87504  
(505) 982-2043

Attorney for Celero Energy II LP



STATE/FEDERAL/FEE

WATERFLOOD UNIT

AMENDED UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

ROCK QUEEN UNIT

CHAVES AND LEA COUNTIES, NEW MEXICO

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

EXHIBIT **B**



AMENDED UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
ROCK QUEEN UNIT  
CHAVES AND LEA COUNTIES, NEW MEXICO

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PARTICIPATION

WATERFLOOD UNITS  
AMENDED UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
ROCK QUEEN UNIT  
  
CHAVES AND LEA COUNTIES, NEW MEXICO

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 2010, 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 Rock Queen Unit Area the subject to this Agreement which the parties wish to amend to incorporate the revised State of New Mexico standard Waterflood Unit Agreement form by replacing the previously authorized Unit Agreement with the following language; 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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New

Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

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

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

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

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

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

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

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

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 4,939.77 acres, more or less, in Chaves and Lea Counties, New Mexico.

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

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

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

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

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

(g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

(h) "Unitized Formation" shall mean that heretofore established underground reservoir, referred to as the "Queen Sand", being a member of the Queen Formation of the Guadalupe Series, a part of the Permian System, the top of which is found at 3,050 feet, and the base of which is found at 3,066 feet, on the Gamma Ray Neutron Log of the Gulf Oil Corporation, State of New Mexico 'BMC' No. 1 Well, located in the SE/4SE/4 of Section 23, Township 13 South, Range 31 East, N.M.P.M., insofar as same lies within the Unit Area.

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

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

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

(l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.

(m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from

the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.

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

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

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

(q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, Rock Queen Unit, Chaves and Lea Counties, New Mexico".

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

(s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

(t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform 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) "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.

(x) "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.

(y) "Effective Date" is the date determined in accordance with Section 24, or as re-determined 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, and Tract Participation of each 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. The above described Unit Area may, with the approval of the A.O. and the Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided, however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to 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 therefore 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 and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

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 therefore, 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 month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

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

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

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

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

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

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

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

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

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

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

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or

operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

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

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

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

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

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

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B" is the same as set out in Amended Exhibit B dated September 1, 1964 of the original Unit Agreement for the West Loco Hills Grayburg No. 4 Sand Unit effective July 1, 1963 which used the following formula:

$$\begin{aligned} \text{Percentage Tract Participation} &= 75 \%, \text{ Tract Remaining Recoverable Oil/Unit Area} \\ &\quad \text{Remaining Recoverable Oil,} \\ &\quad \text{PLUS} \\ &\quad 25\%, \text{ Tract Current Production/Unit Area Current Production} \end{aligned}$$

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

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

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

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

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14 (a) and 14 (b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participation which would have been attributed to the non-subscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

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

**SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES.** All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and the Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of

the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

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

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

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

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

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

SECTION 15 D. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra

expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding 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 (Non-joinder 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 "B" shall be revised by the Unit Operator; and the revised Exhibit "B", 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 gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted there from; 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 Agreement.

**SECTION 17. ROYALTY SETTLEMENT.** The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

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

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

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

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title

failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

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

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

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

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

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

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

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

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B".

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

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

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

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

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

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

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

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

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

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

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

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before, \_\_\_\_\_ it shall ipso facto expire on said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of Chaves and Lea Counties, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

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

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such

termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Chaves and Lea Counties, New Mexico, within thirty (30) days of the effective date of termination.

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

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

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

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

**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, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the 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 RIGHT. 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 Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

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

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

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

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

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

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

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay



or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

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

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

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

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

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the

Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

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

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

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

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Chaves and Lea Counties, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Eddy County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

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

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

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

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

Executed as of the day and year first above written.

Celero Energy II, LP  
By: Celero Energy Holdings II, LLC

By: \_\_\_\_\_  
Name: John E. Lodge, CPL  
Title: Vice President, Land

Date of execution \_\_\_\_\_

WORKING INTEREST OWNERS:

Celero Energy II, LP  
By: Celero Energy Holdings II, LLC

By: \_\_\_\_\_  
Name: John E. Lodge, CPL  
Title: Vice President, Land

\_\_\_\_\_  
JOHN OWEN

\_\_\_\_\_  
ROBERT OWEN

\_\_\_\_\_  
LISA OWEN

\_\_\_\_\_  
JEAN ELIZABETH SUMMERS

\_\_\_\_\_  
MARK J. MOURNE

OBO Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CIRCLE RIDGE PRODUCTION, INC.

By: \_\_\_\_\_  
Name: Douglas Friedel  
Title: President

MANFORD PRODUCTION CO.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
DOROTHY ELIZABETH CLARDY BARNETT

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2010, by John E. Lodge, Vice President, of Celero Energy Holdings II, LLC, a Delaware limited Liability Company, General Partner of Celero Energy Celero Energy II, LP, a Delaware limited partnership, on behalf of said partnership.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by \_\_\_\_\_, the \_\_\_\_\_ of OBO  
Inc., a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by Douglas Friedel, the President of, CIRCLE  
RIDGE PRODUCTION, INC. a \_\_\_\_\_ corporation, on behalf of said  
corporation.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by \_\_\_\_\_, the \_\_\_\_\_ of MANFORD  
PRODUCTION CO.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by JOHN OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2008, by ROBERT OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by LISA OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by JEAN ELIZABETH SUMMERS.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

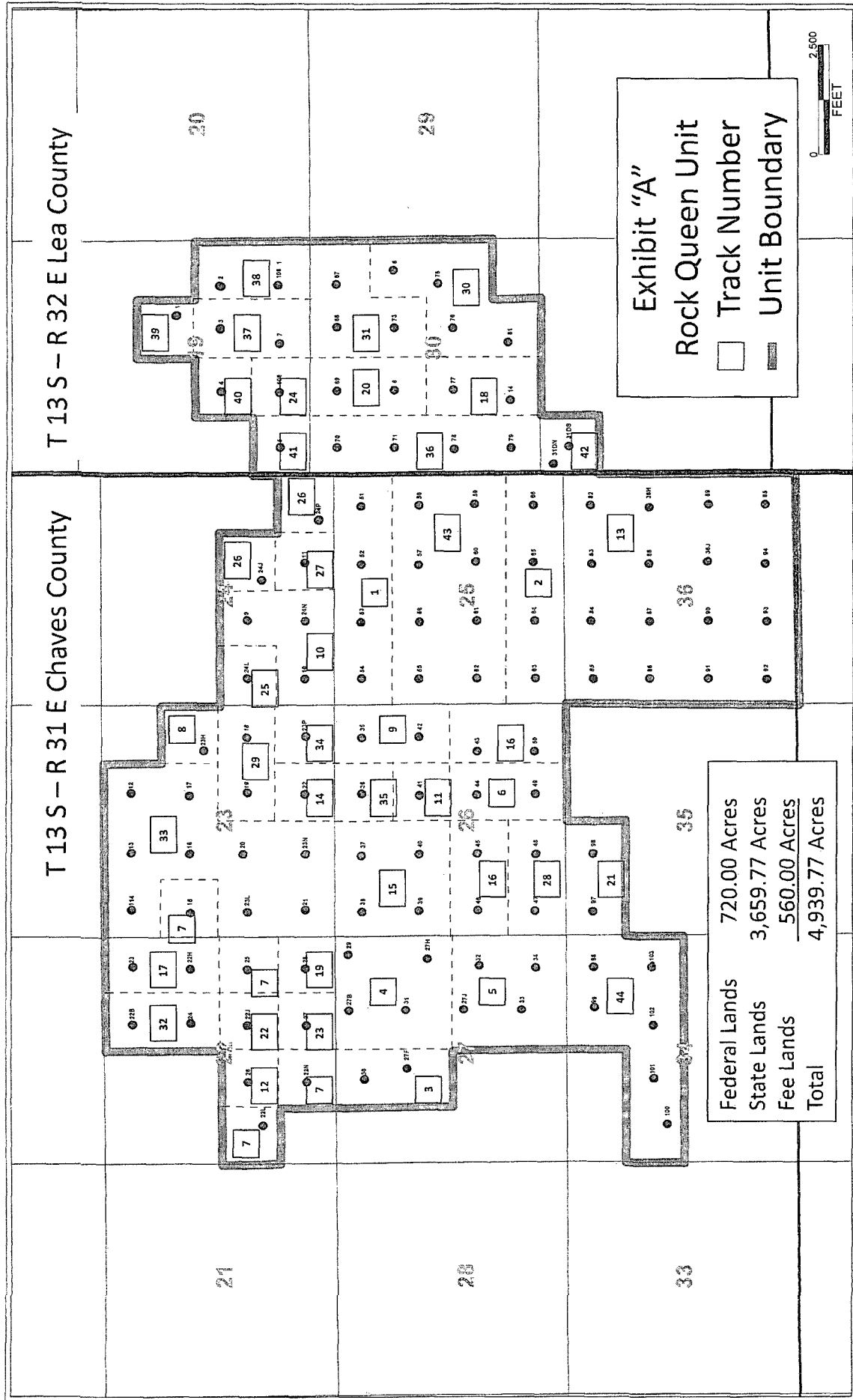
This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by MARK J. MOURNE.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by DOROTHY ELIZABETH CLARDY BARNETT.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_





**EXHIBIT "B"**  
**ROCK QUEEN UNIT**  
**UNIT TRACT INFORMATION AND PERCENTAGE**

Tract No.	Description	Section	Township	Range	Number of Acres	Lease and/or Assignment No.	Basic Royalty	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Participation of Tract in Unit	
Federal												
1	N/2 N/2	25	13S	31E	160	LC-068288-A	12.5%	Mobil Producing TX & NM, Inc Catherine F. and W. J. Sewell First Roswell Company McMurry University Ruby Cross Bell Family Circle Ridge Production Douglas Friedel	75% of 8/8 .75% of 8/8 .75% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	4.39275
2	S/2 S/2	25	13S	31E	160	LC-068288-B	12.5%	Celero Energy II, L.P.	Circle Ridge Production Douglas Friedel	Celero Energy II, L.P.	100%	5.27188
3	E/2 NW/4	27	13S	31E	80	NM-02509	12.5%	Chevron U.S.A., Inc.	Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	Celero Energy II, L.P.	100%	0.63276
4	NE/4	27	13S	31E	160	NM-03844	12.5%	Marshall & Winston, Inc.	Columbine II, LTD Partnership Circle Ridge Production Douglas Friedel	Celero Energy II, L.P.	100%	3.812
5	SE/4	27	13S	31E	160	NM-04385	12.5%	Davoll, Inc. 35.524% Great Western 64.476%	Circle Ridge Production Douglas Friedel	Celero Energy II, L.P.	100%	2.82066
State												
5 Federal Tracts 720 Acres 18 Wells												
6	W/2 SE/4	26	13S	31E	80	B-399-35	12.5%	F. Karsten & Manforth Prod., Inc.	Janet Boyle Irene Boklin Suzanne Varner William H. Danforth Trust	Celero Energy II, L.P. Clardy & Barnett CBO Inc. Manforth Production	134.5/160 3/32 3/64 3/160	1.76744

7	SW1/4 NW1/4 Sec 23 NE1/4 SE1/4 SW1/4 NW1/4 SW1/4 Sec 22.	23	13S	31E	160	B-4318-109 B-10418-75 B-5605-26	12.5%	Geror Oil Corporation	Spurck Family Trust Dawn N. Stead Survivor Trust Harian Stead Deceased Trust Spindletop Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.42564
8	SE1/4 NE1/4	23	13S	31E	40	B-8459	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative			Not Committed
9	E/2 NE1/4	26	13S	31E	80	B-3822-10	12.5%	Pomeroy Smith & Odin Industries, Inc.	Craig, LTD Mount Hermon Assoc. Inc. Beverly S. Couzzourt Catherine C. Couzzourt Margaret F. Grace Linda De Ibern Michael Levick Bona Faye Jones Circle Ridge Production Douglas Friedel	33/80 of 1/12 9/80 of 1/12 1/2 of 1/2 of 17/80 of 1/12 1/4 of 1/2 of 17/80 of 1/12 1/4 of 1/2 of 17/80 of 1/12 1/6 of 17/80 of 1/12 1/6 of 17/80 of 1/12 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.15091
10	S/2 SW1/4 NE1/4 SW1/4	24	13S	31E	120	B-5359	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Woerdle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.67459
11	SW1/4 NE1/4	26	13S	31E	40	B-9495-24	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.15503
12	NE1/4 SW1/4	22	13S	31E	40	B-9541	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Woerdle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in	Celero Energy II, L.P.	100%	0.5001

13	All	36	13S	31E	640	B-9541	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Woerdle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	11.60275
14	SW1/4 SE1/4	23	13S	31E	40	B-10418-44	12.5%	Celero Energy II, L.P.	Pendergast Trust Katherine K. McIntyre Coradine Aulry Circle Ridge Production Douglas Friedel	2.5% of 8/8 5% of 8/8 7.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.12774
15	NW1/4	26	13S	31E	150	B-10418-76	12.5%	Geror Oil Corporation	Spurck Family Trust Dawn N. Stead Survivor Trust Harlan Stead Deceased Trust Spindletop Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.30685
16	N1/2 SW1/4 E1/2 SE1/4	26	13S	31E	160	B-10418-76	12.5%	Geror Oil Corporation	Spurck Family Trust Dawn N. Stead Survivor Trust Harlan Stead Deceased Trust Spindletop Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.69165
17	E1/2 NE1/4	22	13S	31E	80	B-10419-39	12.5%	Celero Energy II, L.P.	Cecil A. Gale Estate Kathryn O. Gale Featherstone Development Corp Circle Ridge Production Douglas Friedel	1/2 of 1/32 of 8/8 1/2 of 1/32 of 8/8 1/32 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.8531
18	E1/2 SW1/4	30	13S	32E	80	B-11332-12 B-11332-13	12.5%	Mobil Producing TX & NM, Inc. Boiling Enterprises, LTO	Meryl L. Boiling Circle Ridge Production Douglas Friedel	1/4 of 1% 1/4 of 1% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.54471

19	SE/4 SE/4	22	13S	31E	40	B-11644-21	12.5%	Celero Energy II, L.P.	Spindletop Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	1/36 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.65728
20	E/2 NW/4	30	13S	32E	60	E-35-4	12.5%	Mobil Producing TX & NM, Inc	Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.71461
21	N/2 NW/4	35	13S	31E	80	D-473-11	12.5%	Anadarko Petroleum Corp.	Danielle S. Fricke Circle Ridge Production Douglas Friedel	1% of 7/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.73007
22	NW/4 SE/4	22	13S	31E	40	E-1380	12.5%	Kerr-McGee O/G Onshore, LP	Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.25902
23	SW/4 SE/4	22	13S	31E	40	E-4191	12.5%	Marshall & Winston, Inc.	Columbine II, LTD Partnership Circle Ridge Production Douglas Friedel	27.5% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P. Jean E. Summers Circle Ridge Prod. John Owen Lisa Owen Robert Owen	85.05775% 5.55954% 3.13271% 1/3 of 6.2500% 1/3 of 6.2500% 1/3 of 6.2500%	0.43019
24	SE/4 SW/4	19	13S	32E	40	E-4192-1	12.5%	Celero Energy II, L.P.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.38674
25	NW/4 SE/4	24	13S	31E	40	E-5663	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.58428

26	NW¼ SE¼, SE¼ SE¼	24	13S	31E	80	E-5663	12.5%	Chevron U.S.A., Inc.	Celero Energy II, L.P. Circle Ridge Production Douglas Friedel	3/32 of 7/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P. Mark Mounre	95.9321% 4.0679%	1.64872
27	SW¼ SE¼	24	13S	31E	40	E-5663	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.8714
28	S½ SW¼	26	13S	31E	80	E-5758	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.45728
29	N½ SE¼	23	13S	31E	80	E-6401	12.5%	Celero Energy II, L.P.	Oxy USA WTP LTD Partnership Circle Ridge Production Douglas Friedel	1/8 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.26026
30	W½ SE¼ NE¼ SE¼ SE¼ NE¼	30	13S	32E	160	E-7494-1	12.5%	Mobil Producing TX & NM, Inc Mary L. Boiling Yvonne Sampson & Rudolph A. Woemdle Circle Ridge Production Douglas Friedel	1/4 of 1% 1/4 of 1% 1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.26122	
31	N½ NE¼ SW¼ NE¼	30	13S	32E	120	E-7494-1	12.5%	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woemdle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	3.44089	
32	W½ NE¼	22	13S	31E	80	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.928
33	E½ NW¼ NW¼ NW¼ W½ NE¼ SW¼	23	13S	31E	360	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	3.79868
34	SE¼ SE¼	23	13S	31E	40	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in	Celero Energy II, L.P.	100%	0.28618

35	NW/4 NE/4	26	13S	31E	40	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.44411
36	W/2 W/2	30	13S	32E	173.2	E-8005-3	12.5%	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woendle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.1188	
37	W/2 SE/4	19	13S	32E	80	E-8005-3	12.5%	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woendle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.81598	
38	E/2 SE/4	19	13S	32E	80	E-8005-3	12.5%	Mobil Producing TX & NM, Inc Boiling Enterprises, LTD Mary L. Boiling Yvonne Sampson & Rudolph A. Woendle Circle Ridge Production Douglas Friedel	1/4 of 1% 1/4 of 1% 1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.68709	
39	SW/4 NE/4	19	13S	32E	40	E-8063-2	12.5%	Mobil Producing TX & NM, Inc Mobile Producing TX & NM, Inc Boiling Enterprises, LTD Mary L. Boiling Circle Ridge Production Douglas Friedel	12.5% 1/2 of 1% 1/2 of 1% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.13463	
40	NE/4 SW/4	19	13S	32E	40	E-8149-1	12.5%	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woendle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.97263	
41	SW/4 SW/4	19	13S	32E	42.98	L-8226-1	12.5%	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woendle Circle Ridge Production Douglas Friedel	1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.15044	

[illegible]

Perry Glenn Gregory 0.069450%  
 Biasco LLC 0.013340%  
 R. E. Echols, Jr., LLC 0.026676%  
 Jan C. Ice 0.013338%  
 Elizabeth Jane Kay Fami 0.026676%

44	NE/4, S/2 NW/4	34	T3S	31E	240	Frankie I. Mize Sandra Smith George A. Seely Jeanette L. Wilson Rose A. Johnson Clyde Seely James L. Seely Larry Hunicutt Harle, Inc. Dyke Allen Browning Mike Alden Browning	1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/8 of 12.5% 1/8 of 12.5% 1/8 of 12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.93899
2 Fee Tracts 560 Acres 14 Wells													

\* The following parties are overriding royalty interest payees under the Rock Queen Unit:

Judith H. Davenport Trust 0.00035641  
 Wadi Petroleum 0.00010000  
 Madeline F. Fink, Revoc. Trus 0.00006496  
 Elmore A. Willis Jr. Trust 0.00001613

TOTALS:  
 5 Federal Tracts  
 37 State of New Mexico Tracts  
 2 Fee Tracts

720 Acres  
 3,659.77 Acres  
 560 Acres  
 4,939.77 Acres

14.57557% of Unit Area  
 74.06787% of Unit Area  
 11.33656% of Unit Area  
 100.00000% of Unit Area



UNIT OPERATING AGREEMENT

ROCK QUEEN UNIT  
Lea and Chavas Counties, New Mexico

EFFECTIVE DATE

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UNIT OPERATING AGREEMENT  
ROCK QUEEN UNIT  
Lea and Chaves Counties, New Mexico

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## UNIT OPERATING AGREEMENT

Rock Queen Unit, Lea and Chaves Counties, New Mexico

This Agreement, entered into as of the \_\_\_\_ day of \_\_\_\_\_ 2010, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

### WITNESSETH:

WHEREAS, by order of the New Mexico Oil Conservation Commission, as entered in cause No. \_\_\_\_\_, dated \_\_\_\_\_, 2010, the parties hereto designated as Working Interest Owners are subject to, or have executed, as of the date hereof, an agreement entitled, "Unit Agreement, Rock Queen Unit, Lea and Chaves Counties, New Mexico herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

### Article 1 CONFIRMATION OF UNIT AGREEMENT

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

### Article 2 EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

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

2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to Unit Operations.

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

### Article 3

#### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 Specific Authorities and Duties. The matters with respect to which 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 pressure maintenance, secondary recovery, or other recovery program to be employed.

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

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

3.2.4 Expenditures. The making of any single expenditure in excess of Seventy-five Thousand and No/100 Dollars (\$75,000.00); 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 therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage, or injection equipment.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Forty Thousand and No/100 Dollars (\$40,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit



Operations; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that, the audits shall

(a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,

(b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and

(c) be made upon not less than thirty (30) days' written notice to Unit Operator.

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

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

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

#### Article 4 MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than two percent (2%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Unit Operator

shall determine and notify Working Interest Owners of the time and place for the meeting. Working Interest Owners who attend the meeting shall not be prevented from amending items or other items presented in the agenda or from deciding the amended item or other items presented at the meeting. Working Interest Owners may attend any meeting by telephone, or other live-voice electronic means. The representative of Unit Operator shall be chairman of each meeting.

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

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

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 seventy-five percent (75%) or more voting interest; provided that, should any one Working Interest Owner have more than seventy-five percent (75%) voting interest, its vote must be supported by the vote of one or more Working Interest Owners.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the 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 shall be charged to the Working Interest Owner who requests the information.

## Article 6 UNIT OPERATOR

6.1 Initial Unit Operator Celero Energy II, LP is hereby designated as Unit Operator.

6.2 Resignation or Removal. Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence or no longer owns an interest in the Unit Area, Operator shall be deemed to resign without any action by Non-Operators except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of two or more Non-Operators owning eighty percent (80%) interest based on ownership as shown on Exhibit "A". Such vote shall not be deemed effective until a written notice has been delivered to the Operator by Non-Operator detailing the alleged default and Operator has failed to terminate the default within 30 days from its receipt of the notice or, if the default concerns an operation then being conducted, within 48 hours of its receipt of the notice. For the purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operations contained Article 7.2 herein or material failure or inability to perform its obligations under this Agreement.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners.

## Article 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

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

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

Nothing herein contained shall grant or be construed to grant Operator the right or authority to waive or release any rights, privileges or obligations which Non-Operators may have under federal or state laws or under rules, or regulations or orders promulgated under such laws in reference to oil and gas operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Unit Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretations or application of rules, regulations, or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Seventy-five Thousand and No/100 Dollars (\$75,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

7.11 Taking in Kind. If, pursuant to the Unit Agreement, Operator is purchasing or selling more than its share of Unitized Substances pursuant to the Unit Agreement, any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator

shall have no duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by Operator of a non-taking party's share of oil under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days written notice of such intended purchase and the price to be paid or the pricing basis to be used.

## Article 8 TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; 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 a one eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

## Article 9 INSURANCE

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

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

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

9.1.3 Carry other insurance as set forth in Exhibit E.

## Article 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, together with the casing therein.

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

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate in accordance with the provisions of Exhibit D the personal property taken over.

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

10.4 General Facilities. The acquisition of warehouses, warehouse stock, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

## Article 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expenses for Unit Operations that do not otherwise require Working Interest Owner approval pursuant to Article 3 and all approved Unit Operations (hereinafter "Ordinary Unit Expenses"). Each Working Interest Owner shall reimburse Unit Operator for its share of Ordinary Unit Expenses. Each Working Interest Owner's share of Ordinary Unit Expenses shall be allocated in proportion to its Unit Participation at the time such Ordinary Unit Expense is incurred. All charges, credits, and accounting for Ordinary Unit Expenses shall be in accordance with Exhibit D.

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

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to its other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Ordinary Unit Expenses by submitting to each Working Interest Owner, on or before the 15<sup>th</sup> day of any month, an itemized estimate thereof for the succeeding month, together with an invoice for such Working Interest Owner's share thereof. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its respective share of such estimate. Adjustments between estimated and actual Ordinary Unit Expenses shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly. If a Working Interest Owner fails to advance its respective share of estimated Ordinary Unit Expenses as provided in this Section 11.3, such Working Interest Owner's share of any such advanced billings shall be treated as an item of Unpaid Ordinary Unit Expenses pursuant to Section 11.4.

11.4 Unpaid Ordinary Unit Expenses. If any Working Interest Owner fails or is unable to pay (i) its share of Ordinary Unit Expenses within sixty (60) days after rendition of a statement therefore by Unit Operator, or (ii) its share of advanced billings in accordance with Section 11.3, the unpaid balance shall be paid to Unit Operator by the non-defaulting Working Interest Owners (or by Unit Operator as applicable under Section 11.3) as if it were Ordinary Unit Expenses in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the total Unit Participation of all such non-defaulting Working Interest Owners. Such unpaid amount shall bear interest at the prime rate set by Chase Manhattan Bank of New York for the same period plus five percent (5%) per annum or the maximum contract rate permitted by applicable usury laws, whichever is the lesser. Working Interest Owners (or Unit Operator, as applicable) so paying the same shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the defaulting Working Interest Owner's share of the sale of Unitized Substances. During the time that any Working Interest Owner fails to pay its share of Ordinary Unit Expenses, the Unit Operator shall be entitled to collect and receive from the purchaser of production, the proceeds from such defaulting Working Interest Owner's share of the sale of Unitized Substances. All credits to any such defaulting Working Interest Owner on account of the sale or disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Ordinary Unit Expenses charged against such defaulting Working Interest Owner until such Working Interest Owner's share of Ordinary Unit Expenses are paid in full, together with any interest accrued thereon.

Notwithstanding the foregoing, Unit Operator shall have the option, but not the obligation, to elect to carry or otherwise finance any defaulting Working Interest Owner(s) in lieu of having all non-defaulting Working Interest Owners participate in the carrying or otherwise financing any defaulting Working Interest Owner(s). Unit Operator upon such election shall be entitled to recovery of the money advanced on behalf of a defaulting Working Interest Owner, plus any additional administrative charges and interest as provided herein.

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

Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the Unit Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as provided herein. Nothing in this Agreement shall be construed to establish a fiduciary relationship between Operator and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in this Agreement shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the parties otherwise specifically agree.

11.6 Liens and Security Interests: Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas Leases and Oil and Gas Interests in the Unit Area, and a security interest and/or purchase money security interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this Agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time following execution hereof, and Operator is authorized to file this Agreement or the recording supplement executed herewith as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code in the state in which the Unit Area is



situated and such other states as Operator shall deem appropriate to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a financing statement with the proper officer under the Uniform Commercial Code.

Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this Agreement by, through or under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this Agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article 11.5 as to all obligations attributable to such interest hereunder whether or not such obligations arise before or after such interest is acquired.

To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the Unit Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by such party, plus interest as provided in "Exhibit D", has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.

If any party fails to pay its share of cost within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described herein, and each paying party may independently pursue any remedy available hereunder or otherwise.

If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted hereunder,

such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien law of any state in which the Unit Area is situated to enforce the obligations of each party hereunder. Without limiting the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Unit Area is situated in order to secure the payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

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

11.8 Non-participating Working Interest Owners. Upon approval by and upon entry of an order of the New Mexico Oil Conservation Division, this Agreement supersedes that certain Unit Operating Agreement Rock Queen Unit, dated October 1, 1959, revised December 1, 1987, as authorized by Article 7, Statutory Unitization Act, §70-7-1. Et seq., N.M.S.A., and governs the relationship of all Working Interest Owners in lands included in the Unit Area. Any Working Interest Owner that does not join in, or ratify this Agreement ("Non-participating Working Interest Owner") shall (a) have no voting rights as to Unit Operations, (b) be deemed non-participating in all Unit operations conducted in accordance with this Agreement, and (c) shall not be entitled to notice of, or to attend meetings of the Working Interest Owners. The ownership interest, and development obligations of each Non-participating Working Interest Owner shall be allocated to the Working Interest Owners executing, or ratifying this Agreement, and costs incurred on behalf of such Non-participating Working Interest Owners may be recouped by those Working Interest Owners from the participation share of proceeds from the sale of oil and gas attributable to the ownership of the Non-participating Working Interest Owners, and such recoupment shall include the actual costs incurred plus two hundred percent (200%) of such costs.

## Article 12 NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement.

In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent reasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

### Article 13 TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit C, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expenses, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

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

### Article 14 LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the liens granted among the parties in Article 11.5 are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this Agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as parties, co-venturers, or principles. In their relations with each other under the Agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Fifty Thousand and no/100 Dollars (\$50,000.00) provided the payment is in complete settlement of such claim or suit. If the amount

required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expenses. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

## Article 15 INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of chapter I of Subtitle A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

## Article 16 NOTICES

16.1 All notices authorized or required between the parties by any of the provisions of this Agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A". All telephone or oral notices permitted by this Agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this Agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this Agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party shall have the right to change its address at any time, and from time to time, by giving written

notice thereof to all other parties. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

#### Article 17 WITHDRAWAL OF WORKING INTEREST OWNER

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

#### Article 18 ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, 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 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. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

#### Article 19 EFFECTIVE DATE AND TERM

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

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

## Article 20 ABANDONMENT OF OPERATIONS

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

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

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

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

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Participations.

## Article 21 EXECUTION

21.1 Original Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

## Article 22 SEVERABILITY

22.1 Severability. For the purposes of assuming or rejecting this Agreement as an executory contract pursuant to federal bankruptcy laws, this Agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this

Agreement to comply with all of its financial obligations provided herein shall be a material default.

Article 23  
SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. The provisions hereof shall be covenants running with 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.

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

UNIT OPERATOR:

Celero Energy II, LP  
By: Celero Energy Holdings II, LLC

By: \_\_\_\_\_  
Name: John E. Lodge, CPL  
Title: Vice President, Land

WORKING INTEREST OWNERS:

Celero Energy II, LP  
By: Celero Energy Holdings II, LLC

By: \_\_\_\_\_  
Name: John E. Lodge, CPL  
Title: Vice President, Land

\_\_\_\_\_  
JOHN OWEN

\_\_\_\_\_  
ROBERT OWEN

\_\_\_\_\_  
LISA OWEN

\_\_\_\_\_  
JEAN ELIZABETH SUMMERS

\_\_\_\_\_  
MARK J. MOURNE

OBO Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CIRCLE RIDGE PRODUCTION, INC.

By: \_\_\_\_\_  
Name: Douglas Friedel  
Title: President

MANFORD PRODUCTION CO.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
DORTHORY ELIZABETH CLARDY BARNETT



STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2010, by John E. Lodge, Vice President, of Celero Energy Holdings II, LLC, a Delaware limited Liability Company, General Partner of Celero Energy Celero Energy II, LP, a Delaware limited partnership, on behalf of said partnership.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2010, by \_\_\_\_\_, the \_\_\_\_\_ of OBO Inc., a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2010, by Douglas Friedel, the President of, CIRCLE RIDGE PRODUCTION, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by \_\_\_\_\_, the \_\_\_\_\_ of MANFORD  
PRODUCTION CO.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by JOHN OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_, 2008, by ROBERT OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by LISA OWEN.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by JEAN ELIZABETH SUMMERS.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

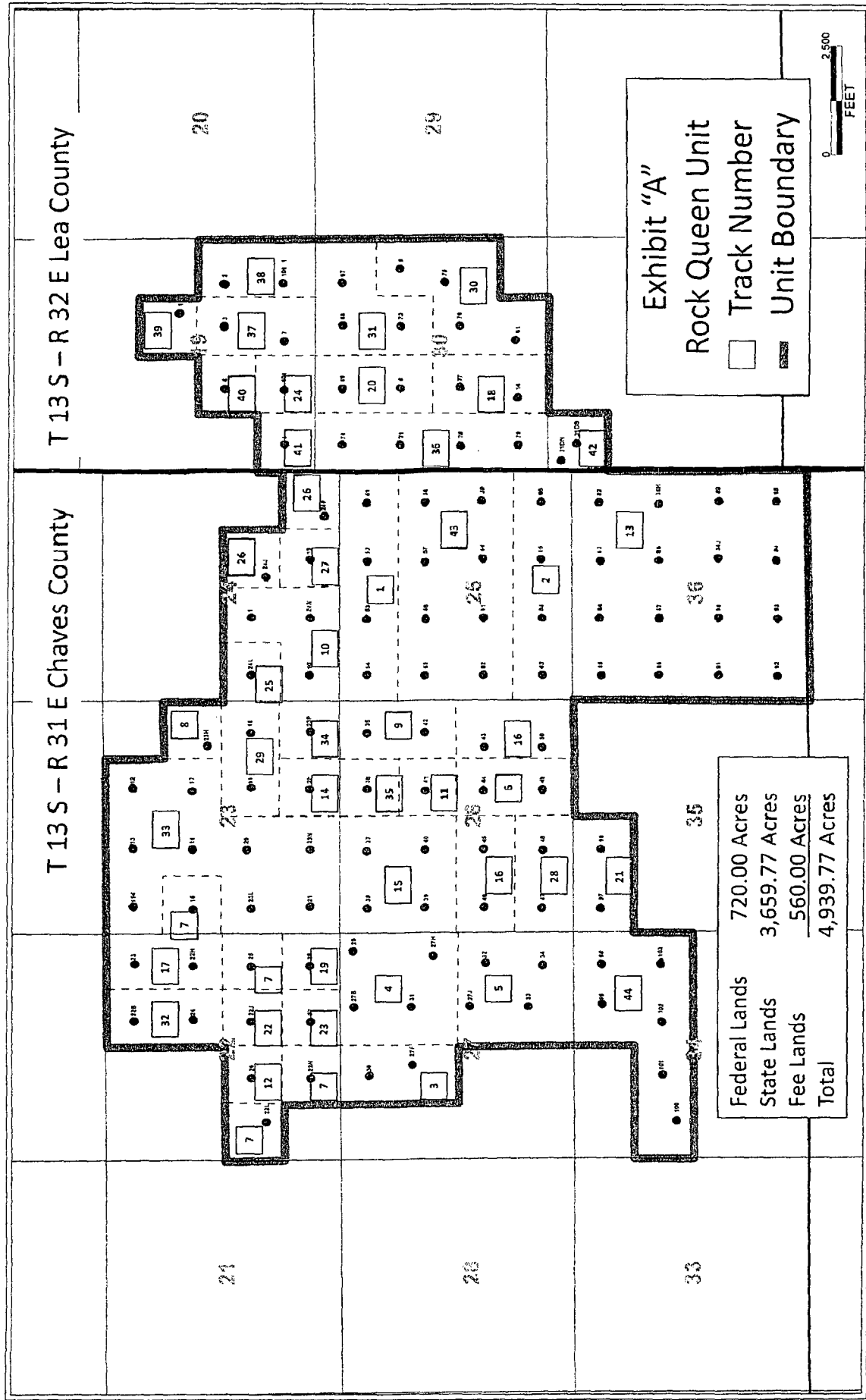
This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by MARK J. MOURNE.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_

STATE OF \_\_\_\_\_ §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_,  
2010, by DORTHORY ELIZABETH CLARDY BARNETT.

\_\_\_\_\_  
Notary Public for the  
State of \_\_\_\_\_



**EXHIBIT 'B'**  
**ROCK QUEEN UNIT**  
**UNIT TRACT INFORMATION AND PERCENTAGE**

Tract No.	Description	Section	Township	Range	Number of Acres	Lease and/or Assignment No.	Basic Royalty	Lessee of Record	Overriding Royalty Owner and Amount	Working Interest Owner and Amount	Per Cent Participation of Tract in Unit
<b>Federal</b>											
1	N/2 N/2	25	13S	31E	160	LC-068285-A	12.5%	Moat Producing TX & NM, Inc. Catherine F. and W. J. Sewell First Roswell Company McMurry University Ruby Cross Bell Family Circle Ridge Production Douglas Friedel	75% of 8/8 75% of 8/8 75% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100% 4.39275
2	S/2 S/2	25	13S	31E	160	LC-068286-B	12.5%	Celero Energy II, L.P.	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100% 5.27188
3	E/2 NW/4	27	13S	31E	80	NM-02509	12.5%	Cherion U.S.A., Inc. Yvonne Sampson & Riddiph A. Woodmire Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100% 0.63276
4	NE/4	27	13S	31E	160	NM-03844	12.5%	Marshall & Winston, Inc. Columbine II, LTD Partnership Circle Ridge Production Douglas Friedel	5% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100% 3.812
5	SE/4	27	13S	31E	160	NM-04385	12.5%	David, Inc. 35.524% Great Western 64.476% Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100% 2.82066
<b>State</b>											
<b>5 Federal Tracts - 170 Acres - 18 Wells</b>											
6	W/2 SE/4	26	13S	31E	80	B-395-35	12.5%	F. Karsten & Manforth Prod., Inc. Janel Boyle Irene Bokun Suzanne Varner William H. Danforth Trust	1/3 of 1/144 of 7/8 1/3 of 1/144 of 7/8 1/3 of 1/144 of 7/8 1/72 of 7/8 plus	Celero Energy II, L.P. Clady & Barnett OBO Inc. Manforth Production	134.5/160 3/32 3/64 3/160 1.76744

7	SW1/4 NW1/4 Sec.23 & 22 NE1/4 SE1/4, SE1/4 SW1/4 NW1/4 SW1/4 Sec.22;	13S	31E	160	B-8318-109 B-10418-75 B-8605-26	12.5%	Geor Oil Corporation	Spurck Family Trust Dawn N. Stead Survivor Trust Harlan Stead Deceased Trust Spindlerco Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.42564	
8	SE1/4 NE1/4	23	13S	31E	40	B-8459	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative		Not Committed	
9	E1/2 NE1/4	26	13S	31E	80	B-8622-10	12.5%	Pomeroy Smith & Odm Industries, Inc.	Craig, LTD Mount Herron Assoc. Inc. Severly S. Couzzout Catherine C. Couzzout Margaret F. Grace Linda De Ibern Michael Lewick Bona Faye Jones Circle Ridge Production Douglas Friedel	33/60 of 1/12 9/60 of 1/12 1/2 of 1/2 of 17/80 of 1/12 1/4 of 1/2 of 17/80 of 1/12 1/4 of 1/2 of 17/80 of 1/12 1/6 of 17/80 of 1/12 1/6 of 17/80 of 1/12 1/6 of 17/80 of 1/12 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.15091
10	S1/2 SW1/4 NE1/4 SW1/4	24	13S	31E	120	B-9359	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Wiermde Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.67459
11	SW1/4 NE1/4	26	13S	31E	40	B-9495-24	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.15503
12	NE1/4 SW1/4	22	13S	31E	40	B-9541	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Wiermde Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.5007

suspense pending title curative													
13	All	36	13S	31E	640	B-9541	12.5%	Celero Energy II, L.P.	Yvonne Sampson & Rudolph A. Woemle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	11.60275
14	SW1/4 SE1/4	23	13S	31E	40	B-10418-44	12.5%	Celero Energy II, L.P.	Pendergast Trust Katherine K. McIntyre Coradine Aulry Circle Ridge Production Douglas Friedel	2.5% of 8/8 5% of 8/8 7.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.12774
15	NW1/4	26	13S	31E	160	B-10418-76	12.5%	Celero Oil Corporation	Spruck Family Trust Dawn N. Stead Survivor Trust Harlan Stead Deceased Trust Spindletop Exploration Co., Inc Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.30685
16	N1/2 SW1/4 E1/2 SE1/4	26	13S	31E	160	B-10418-75	12.5%	Celero Oil Corporation	Spruck Family Trust Dawn N. Stead Survivor Trust Harlan Stead Deceased Trust Spindletop Exploration Co., Inc Foran Oil Company Circle Ridge Production Douglas Friedel	5/8 of 6.25% 1/2 of 1/4 of 6.25% 1/2 of 1/4 of 6.25% 1/18 of 6.25% 1/18 of 6.25% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	5.69165
17	E1/2 NE1/4	22	13S	31E	80	B-10419-39	12.5%	Celero Energy II, L.P.	Cecil A. Gale Estate Kathryn O. Gale Featherstone Development Corp Circle Ridge Production Douglas Friedel	1/2 of 1/32 of 8/8 1/2 of 1/32 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.8531
18	E1/2 SW1/4	30	13S	32E	80	B-11332-12 B-11332-13	12.5%	Mobil Producing TX & NM, Inc Boring Enterprises, LTD Mary L. Boring Circle Ridge Production Douglas Friedel	1/4 of 1% 1/4 of 1% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.54471	

19	SE/4 SE/4	22	13S	31E	40	B-1164-21	12.5%	Celero Energy II, L.P.	Spindletop Exploration Co., Inc. Foran Oil Company Circle Ridge Production Douglas Friedel	1/26 of 8/8 1/26 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.65728
20	E/2 NW/4	30	13S	32E	60	E-35-4	12.5%	Mobil Producing TX & NM, Inc	Yvonne Sampson & Rudolph A. Woemdie Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.71461
21	N/2 NW/4	35	13S	31E	80	D-473-11	12.5%	Anadarko Petroleum Corp.	Danielle S. Frick Circle Ridge Production Douglas Friedel	1% of 7/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.73007
22	NW/4 SE/4	22	13S	31E	40	E-1380	12.5%	Kerr-McGee O&G Onshore, LP	Yvonne Sampson & Rudolph A. Woemdie Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.25902
23	SW/4 SE/4	22	13S	31E	40	E-4191	12.5%	Marshall & Winslow, Inc.	Columbine II, L.P. Partnership Circle Ridge Production Douglas Friedel	27.5% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P. Jean E. Summers Circle Ridge Prod Lisa Owen Robert Owen	85.05775% 5.58954% 3.13271% 1/3 of 6.2500% 1/3 of 6.2500%	0.43019
24	SE/4 SW/4	19	13S	32E	40	E-4192.1	12.5%	Celero Energy II, L.P.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.38674
25	NW/4 SE/4	24	13S	31E	40	E-5663	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.58428



26	NW/4 SE/4, SE/4 SE/4	24	13S	31E	80	E-5663	12.5%	Chevron U.S.A., Inc.	Celero Energy II, L.P. Circle Ridge Production Douglas Friedel	3.02 of 7/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P. Mark Mounne	95.9321% 4.0679%	1.64872
27	SW/4 SE/4	24	13S	31E	40	E-5663	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.8714
28	S/2 SW/4	26	13S	31E	80	E-5758	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	1.45728
29	N/2 SE/4	23	13S	31E	80	E-6401	12.5%	Celero Energy II, L.P.	Oxy USA WTP LTD Partnership Circle Ridge Production Douglas Friedel	1/8 of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.26026
30	W/2 SE/4 NW/4 SE/4 SE/4 NE/4	30	13S	32E	160	E-7494-1	12.5%	Mobil Producing TX & NM, Inc	Boiling Enterprises, LTD Mary L. Boiling Yvonne Sampson & Rudolph A. Woemle Circle Ridge Production Douglas Friedel	1/4 of 1% 1.4 of 1% 1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	2.26122
31	N/2 NE/4 SW/4 NE/4	30	13S	32E	120	E-7494-1	12.5%	Mobil Producing TX & NM, Inc	Yvonne Sampson & Rudolph A. Woemle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	3.44089
32	W/2 NE/4	22	13S	31E	80	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.928
33	E/2 NW/4 NW/4 NW/4 W/2 NE/4 SW/4	23	13S	31E	360	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	3.79868
34	SE/4 SE/4	23	13S	31E	40	E-7659	12.5%	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	4.285892% of 8/8 2.142946% of 8/8 in	Celero Energy II, L.P.	100%	0.28618

35	NW/4 NE/4	26	13S	31E	40	E-7659	Chevron U.S.A., Inc.	Circle Ridge Production Douglas Friedel	12.5%	4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	Celero Energy II, L.P.	100%	0.44411
36	W/2 W/2	30	13S	32E	173.2	E-8005-3	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	5.1188			
37	W/2 SE/4	19	13S	32E	80	E-8005-3	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	1.81598			
38	E/2 SE/4	19	13S	32E	80	E-8005-3	Mobil Producing TX & NM, Inc Boiling Enterprises, LTD Mary L. Boiling Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1/4 of 1% 1/4 of 1% 1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	1.66709			
39	SW/4 NE/4	19	13S	32E	40	E-8063-2	Mobil Producing TX & NM, Inc Boiling Enterprises, LTD Mary L. Boiling Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	12.5% 1/2 of 1% 1/2 of 1% 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	0.13463			
40	NE/4 SW/4	19	13S	32E	40	E-8149-1	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.32731% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	0.97263			
41	SW/4 SW/4	19	13S	32E	42.98	L-8226-1	Mobil Producing TX & NM, Inc Yvonne Sampson & Rudolph A. Woernle Circle Ridge Production Douglas Friedel	1.5% of 8/8 4.285892% of 8/8 2.142946% of 8/8 in suspense pending title curative	100%	0.15044			

[illegible]

Perry Glenn Gregory 0.069450%  
 Blasco, LLC 0.013340%  
 R. E. Echols, Jr., LLC 0.026676%  
 Jan C. Ice 0.013338%  
 Elizabeth Jane Kay Farni 0.026676%

44	NE 1/4, S/2 NW 1/4	34	13S	31E	240	Frankie I. Nize Sandra Smith George A. Seely Jeanette L. Wilson Rose A. Johnson Clyde Seely James L. Seely Larry Hinnicutt Harle, Inc. Dwayne Allen Browning Mike Alden Browning	1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/6 of 1/4 of 12.5% 1/5 of 1/4 of 12.5% 1/5 of 1/4 of 12.5% 1/5 of 1/4 of 12.5% 1/5 of 1/4 of 12.5% 1/8 of 12.5% 1/8 of 12.5% 1/8 of 12.5%	Chevron U.S.A., Inc. Circle Ridge Production Douglas Field	4.28582% of 8/8 2.142945% of 8/8 in suspense pending title curative	Celero Energy II, L.P. 100%	5.93899
2 Fee Tracts 560 Acres 14 Wells											

\* The following parties are overriding royalty interest payees under the Rock Queen Unit.

Judith H. Davenport Trust 0.00035641  
 Wadi Petroleum 0.00010000  
 Madeline F. Fink, Revoc. Trust 0.00006496  
 Elmore A. Willis Jr. Trust 0.00001613

TOTALS:  
 5 Federal Tracts  
 37 State of New Mexico Tracts  
 2 Fee Tracts

720	Acres	14.57557% of Unit Area
3,639.77	Acres	74.08787% of Unit Area
560	Acres	11.33656% of Unit Area
4,939.77	Acres	100.00000% of Unit Area

EXHIBIT "C"  
UNIT OPERATING AGREEMENT  
ROCK QUEEN UNIT  
LEA AND CHAVES COUNTIES, NEW MEXICO

<u>WORKING INTEREST OWNERS</u>	<u>UNIT INTERESTS</u>
Celero Energy , II LP 400 West Illinois Ave., Suite 1601 Midland, Texas 79701	.99595516
John Owen 2282 Highway 15 Rayville, LA 71269	.00008982
Robert Owen 3535 Gillespie St. Dallas, TX 75219	.00008982
Mark Mourne 605 Canon Ridge Trail Canon City, CO 81212-9130	.00067068
Lisa Owen 7729 Idlewood Dallas, TX 75230	.00008982
Jean Elizabeth Summers 1833 Earlmont Ave. La Canada Flintridge, CA 91011-1502	.00023916
Manforth Production Co., Inc. P. O. Box 508 Locust Valley, New York 11560 Attn: Theodore N. Danforth	.00032507
OBO Inc. P. O. Box 22577 Hialeah, Florida 33002 Attn: Cathy Rangel	.00081274
Circle Ridge Production, Inc. 300 East Northside Drive Fort Worth, Texas 76106 Attn: Doug Friedel	.00010226
Dorothy Elizabeth Clardy Barnette 4339 Potomoc Dallas, Texas 75205 Attn: Stephen Barnette	.00162547
TOTAL	<hr/> 1.00000000

## EXHIBIT " D "

### ACCOUNTING PROCEDURE JOINT OPERATIONS

Attached to and made part of that certain the Operating Agreement by and between Celero Energy II, LP as Unit Operator and John Owen, et al and Non-Operators

#### I. GENERAL PROVISIONS

IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.

IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT OF THE PARTIES IN SUCH EVENT.

#### 1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.

- 1 "Joint Property" means the real and personal property subject to the Agreement.
- 2
- 3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
- 4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
- 5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,
- 6 promulgated or issued.
- 7
- 8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
- 9
- 10 "Non-Operators" means the Parties to the Agreement other than the Operator.
- 11
- 12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and
- 13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
- 14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of
- 15 offshore operations, all of which are located offshore.
- 16
- 17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.
- 18
- 19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of
- 20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other
- 21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.
- 22
- 23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.
- 24
- 25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
- 26 "Party."
- 27
- 28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,
- 29 or is otherwise obligated, to pay and bear.
- 30
- 31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of
- 32 the costs and risks of conducting an operation under the Agreement.
- 33
- 34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.
- 35
- 36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual
- 37 railhead may not exist.
- 38
- 39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a
- 40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,
- 41 scheduling and dispatching center; and other associated functions serving the Joint Property.
- 42
- 43 "Supply Store" means a recognized source or common stock point for a given Material item.
- 44
- 45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by
- 46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint
- 47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second
- 48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-
- 49 Operator, Non-Operator Affiliates, and/or third parties.
- 50

## 51 2. STATEMENTS AND BILLINGS

- 52
- 53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the
- 54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
- 55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
- 56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
- 57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
- 58
- 59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3.A (*Advances*
- 60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
- 61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
- 62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
- 63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
- 64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
- 65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
- 66 notice to the Operator.

1 3. ADVANCES AND PAYMENTS BY THE PARTIES

- 2
- 3 A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated
- 4 cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of
- 5 the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances
- 6 received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the
- 7 subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator
- 8 shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- 9
- 10 B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If
- 11 payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
- 12 *Wall Street Journal* on the first day of each month the payment is delinquent, plus three percent (3%), per annum, or the maximum
- 13 contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court
- 14 costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or
- 15 discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
- 16 Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment
- 17 was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed.
- 18 Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the
- 19 Operator at the time payment is made, to the extent such reduction is caused by:
- 20
- 21 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working
- 22 interest or Participating Interest, as applicable; or
- 23 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved
- 24 or is not otherwise obligated to pay under the Agreement; or
- 25 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has
- 26 furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator
- 27 shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty
- 28 (30) day period following the Operator's receipt of such written notice; or
- 29 (4) charges outside the adjustment period, as provided in Section 1.4 (*Adjustments*).
- 30

31 4. ADJUSTMENTS

- 32
- 33 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills
- 34 and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct,
- 35 with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said
- 36 period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response
- 37 to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section 1.5 (*Expenditure*
- 38 *Audits*).
- 39
- 40 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section 1.4.B, are limited to the
- 41 twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared
- 42 on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month
- 43 period are limited to adjustments resulting from the following:
- 44
- 45 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
- 46 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the
- 47 Operator relating to another property, or
- 48 (3) a government/regulatory audit, or
- 49 (4) a working interest ownership or Participating Interest adjustment.
- 50

51 5. EXPENDITURE AUDITS

- 52
- 53 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's
- 54 accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in
- 55 which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the
- 56 adjustment of accounts as provided for in Section 1.4 (*Adjustments*). Any Party that is subject to payout accounting under the
- 57 Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of
- 58 the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the
- 59 volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting
- 60 required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the
- 61 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.
- 62
- 63 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a
- 64 manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators'
- 65 audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
- 66 without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of



those Non-Operators approving such audit.

The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be supported with sufficient documentation.

A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations, provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or 1.5.C.

B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and Payments by the Parties*).

D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable. The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself. Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may be discussed at subsequent meetings until each such issue is resolved.

If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

E. ☐ (*Optional Provision – Forfeiture Penalties*)

If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non-Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made, without interest, to the Joint Account.

## 6. APPROVAL BY PARTIES

### A. GENERAL MATTERS

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the

Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

This Section 1.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are covered by Section 1.6.B.

#### B. AMENDMENTS

If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by an affirmative vote of \_\_\_\_\_ (\_\_\_\_\_) or more Parties, one of which is the Operator, having a combined working interest of at least \_\_\_\_\_ percent (\_\_\_\_\_%), which approval shall be binding on all Parties, provided, however, approval of at least one (1) Non-Operator shall be required.

#### C. AFFILIATES

For the purpose of administering the voting procedures of Sections 1.6.A and 1.6.B, if Parties to this Agreement are Affiliates of each other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating Interest of such Affiliates.

For the purposes of administering the voting procedures in Section 1.6.A, if a Non-Operator is an Affiliate of the Operator, votes under Section 1.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's Affiliate.

### II. DIRECT CHARGES

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

#### 1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.

#### 2. LABOR

A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive Compensation Programs"), for:

- (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a function covered under Section III (*Overhead*),
- (3) Operator's employees providing First Level Supervision,
- (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*),
- (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the overhead rates in Section III (*Overhead*).

Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages, or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.

Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section 1.6.A (*General Matters*).

B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs chargeable to the Joint Account under Sections II.2.A and B.

- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the  
2 expenses are incurred in connection with directly chargeable activities.  
3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the  
5 Joint Account under Section II.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a  
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation  
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the  
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).  
9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and  
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal  
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly  
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are  
14 available.  
15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable  
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account  
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most  
19 recently recommended by COPAS.  
20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose  
22 salaries and wages are chargeable under Section II.2.A.  
23

### 24 3. MATERIAL.

25  
26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section  
27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as  
28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation  
29 of surplus stocks shall be avoided.  
30

### 31 4. TRANSPORTATION

- 32  
33 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.  
34
- 35 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point  
36 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material  
37 from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the  
38 methods listed below:  
39
- 40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a  
41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per  
42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall  
43 consistently apply the selected alternative.  
44
- 45 (2) If the actual trucking charge is greater than the Excluded Amount, the Operator shall charge Equalized Freight. Accessorial  
46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged  
47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.  
48

### 49 5. SERVICES

50  
51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and  
52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to  
53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").  
54

55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).  
56

### 57 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

58  
59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:  
60

- 61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to  
62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership  
63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who  
64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,  
65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation  
66 not to exceed \_\_\_/ per annum; provided, however, depreciation shall not be charged when the  
the prime rate posted at Wells Fargo Bank plus 1%

equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the immediate area of the Joint Property.

- B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

## 7. AFFILIATES

- A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed to such individual project do not exceed \$ 25,000. If the total costs for an Affiliate's goods and services charged to such individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

- B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators, charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the charges exceed \$ 100,000 in a given calendar year.

- C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property, unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however, documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be zero dollars (\$ 0.00).

## 8. DAMAGES AND LOSSES TO JOINT PROPERTY

All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties shall be solely liable.

The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been received by the Operator.

## 9. LEGAL EXPENSE

Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, and liens incurred in or resulting from operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent permitted as a direct charge in the Agreement.

## 10. TAXES AND PERMITS

All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the penalties and interest result from the Operator's gross negligence or willful misconduct.

If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's working interest.

Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted, provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the amount owed by the Joint Account.

#### 11. INSURANCE

Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

#### 12. COMMUNICATIONS

Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting documentation.

#### 13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY

Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

#### 14. ABANDONMENT AND RECLAMATION

Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

#### 15. OTHER EXPENDITURES

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations. Charges made under this Section II.15 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

### III. OVERHEAD

As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator shall charge the Joint Account in accordance with this Section III.

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless of location, shall include, but not be limited to, costs and expenses of:

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- human resources
- management
- supervision not directly charged under Section II.2 (*Labor*)
- legal services not directly chargeable under Section II.9 (*Legal Expense*)
- taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing, interpreting, or submitting comments on or lobbying with respect to Laws or proposed Laws.

Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing overhead functions, as well as office and other related expenses of overhead functions.

#### I. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this Section III, the Operator shall charge on either:

- ☒ (Alternative 1) Fixed Rate Basis, Section III.1.B.  
☐ (Alternative 2) Percentage Basis, Section III.1.C.

##### A. TECHNICAL SERVICES

- (i) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical Services:

☒ (Alternative 1 – Direct) shall be charged direct to the Joint Account.

☐ (Alternative 2 – Overhead) shall be covered by the overhead rates.

- (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead – Major Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages, related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical Services:

☒ (Alternative 1 – All Overhead) shall be covered by the overhead rates.

☐ (Alternative 2 – All Direct) shall be charged direct to the Joint Account.

☐ (Alternative 3 – Drilling Direct) shall be charged direct to the Joint Account, only to the extent such Technical Services are directly attributable to drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover, recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section III.2 (*Overhead – Major Construction and Catastrophe*) shall be covered by the overhead rates.

Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section III.1.A, but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

##### B. OVERHEAD—FIXED RATE BASIS

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

Drilling Well Rate per month \$ 5000.00 (prorated for less than a full month)

Producing Well Rate per month \$ 500.00

- (2) Application of Overhead—Drilling Well Rate shall be as follows:

- (a) Charges for onshore drilling wells shall begin on the spud date and terminate on the date the drilling and/or completion equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling and/or completion operations for fifteen (15) or more consecutive calendar days.

- 1 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more  
2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date  
3 operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges  
4 shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.  
5
- 6 (3) Application of Overhead—Producing Well Rate shall be as follows:  
7
- 8 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for  
9 any portion of the month shall be considered as a one-well charge for the entire month.  
10
- 11 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is  
12 considered a separate well by the governing regulatory authority.  
13
- 14 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,  
15 unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether  
16 or not the well has produced.  
17
- 18 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall  
19 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.  
20
- 21 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead  
22 charge.  
23
- 24 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,  
25 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the  
26 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment  
27 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or  
28 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the  
29 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").  
30  
31

## 32 2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHE

33 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator  
34 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following  
35 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe  
36 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major  
37 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.  
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Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment, removal, and restoration of platforms, production equipment, and other operating facilities.

Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the Joint Property to the equivalent condition that existed prior to the event.

A. If the Operator absorbs the engineering, design and drafting costs related to the project:

- (1) 5 % of total costs if such costs are less than \$100,000; plus
- (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) 2 % of total costs in excess of \$1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

- (1) 5 % of total costs if such costs are less than \$100,000; plus
- (2) 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- (3) 2 % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each single occurrence or event.

On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.

For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any other overhead provisions.

In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7 (*Affiliates*), the provisions of this Section III.2 shall govern.

### 3. AMENDMENT OF OVERHEAD RATES

The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).

## IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality, fitness for use, or any other matter.

### 1. DIRECT PURCHASES

Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location. Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60) days after the Operator has received adjustment from the manufacturer, distributor, or agent.



## 2. TRANSFERS

A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material. Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer; provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (*Disposition of Surplus*) and the Agreement to which this Accounting Procedure is attached.

### A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer. Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or sized tubulars are approved by the Parties pursuant to Section 1.6.A (*General Matters*). Transfers of new Material will be priced using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

- (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).
  - (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston, Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).
  - (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation costs as defined in Section IV.2.B (*Freight*).
- (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.
- (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12) months from the date of physical transfer.
- (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the Material for Material being transferred from the Joint Property.

### B. FREIGHT

Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

- (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the Railway Receiving Point based on the carload weight basis as recommended by the COPAS MF1-38 ("Material Pricing Manual") and other COPAS MFIs in effect at the time of the transfer.
- (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point. For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway Receiving Point.
- (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the Railway Receiving Point.
- (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point.

Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

### C. TAXES

Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

D. CONDITION

(1) Condition "A" – New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%) of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties owning such Material, pursuant to Section 1.6.A (*General Matters*). All refurbishing costs required or necessary to return the Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property. The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material for the receiving property.

(2) Condition "B" – Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent (75%).

Except as provided in Section IV.2.D(3), all reconditioning costs required to return the Material to Condition "B" or to correct handling, transportation or other damages will be borne by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied by sixty-five percent (65%).

Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was not placed in service on the property shall be credited as charged without gain or loss.

(3) Condition "C" – Material that is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by fifty percent (50%).

The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(4) Condition "D" – Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General Matters*).

(5) Condition "E" – Junk shall be priced at prevailing scrap value prices.

E. OTHER PRICING PROVISIONS

(1) Preparation Costs

Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with COPAS MFI-38 ("Material Pricing Manual").

(2) Loading and Unloading Costs

Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with the methods specified in COPAS MFI-38 ("Material Pricing Manual").

### 3. DISPOSITION OF SURPLUS

Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or other dispositions as agreed to by the Parties.

Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is attached without the prior approval of the Parties owning such Material.
- If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such Material.
- Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on the pricing methods set forth in Section IV.2 (*Transfers*).
- Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as Condition C.
- Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval of the Parties owning such Material.

### 4. SPECIAL PRICING PROVISIONS

#### A. PREMIUM PRICING

Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

#### B. SHOP-MADE ITEMS

Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item commensurate with its use.

#### C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-55 casing or tubing at the nearest size and weight.

### V. INVENTORIES OF CONTROLLABLE MATERIAL.

The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12) months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

1. **DIRECTED INVENTORIES**

Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of any directed inventory.

Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to commencement of the inventory. Expenses of directed inventories may include the following:

- A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel performing the inventory or a rate agreed to by the Parties pursuant to Section 1.6.A (*General Matters*). The per diem rate shall also be applied to a reasonable number of days for pre-inventory work and report preparation.
- B. Actual transportation costs and Personal Expenses for the inventory team.
- C. Reasonable charges for report preparation and distribution to the Non-Operators.

2. **NON-DIRECTED INVENTORIES**

A. **OPERATOR INVENTORIES**

Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

B. **NON-OPERATOR INVENTORIES**

Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory fieldwork.

C. **SPECIAL INVENTORIES**

The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however, inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section V.1 (*Directed Inventories*).