

EXHIBIT "D"

INTEREST OWNERS

Santa Fe Energy
550 W. Illinois, Suite 1330
Midland, Texas 79701

Altura Energy Ltd.
P. O. Box 4292
Houston, Texas 77210

Leigh P. Wilber
1014 Western
Northbrook IL 60062

Christine P. Carbaugh
4611 FM 3126
Livingston TX 77351

Constance P. Claassen
4 Wilderness Court
Moline IL 61265

Lynn P. Yedinak
1300 Hawthorne Lane
Hinsdale IL 60521

Gene Day Costello
26672 Sierra Vista
Mission Viejo CA 92692

George Edward Day IV
1970 Shore Oak Dr.
Decatur IL 62521

is your RETURN ADDRESS completed on the reverse side?

SENDER:

- ☒ Cor
- ☒ Cor
- ☒ Prin
- ☒ Car
- ☒ Att
- ☒ Writ
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Burlington
Statutory Unitization
8/25/98

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery
Consult postmaster for fee.

an return this does not number, the date

3. Article Addressed to:

Altura Energy Ltd.
PO Box 4292
Houston, TX 77210

4a. Article Number

P 378 176 526

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☐ COD

7. Date of Delivery

AUG 28 1998

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Thank you for using Return Receipt Service.

is your RETURN ADDRESS completed on the reverse side?

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Burlington
Statutory Unitization
8/25/98

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery
Consult postmaster for fee.

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3. Article Addressed to:

Santa Fe Energy
550 W. Illinois, Suite 1330
Midland, Texas 79701

4a. Article Number

P 378 176 527

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☐ COD

7. Date of Delivery

8-31-98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

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is your RETURN ADDRESS completed on the reverse side?

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Burlington
Statutory Unitization
September 17, 1998
8/25/98

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery
Consult postmaster for fee.

an return this does not number, the date

3. Article Addressed to:

Constance P. Claassen
4 Wilderness Court
Moline, IL 61265

4a. Article Number

P 378 176 531

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☐ COD

7. Date of Delivery

8/28/98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X Constance Claassen

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

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SENDER:

- ☒ Burlington
- ☒ Statutory Unitization
- ☒ September 17, 1998
- ☒ 8/25/98

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery
Consult postmaster for fee.

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3. Article Addressed to:

Leigh P. Wilber
1014 Western
Northbrook, IL 60062

4a. Article Number

P 378 176 525

4b. Service Type

- ☐ Registered
- ☐ Express Mail
- ☐ Return Receipt for Merchandise
- ☐ COD

7. Date of Delivery

9-3-98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X Leigh P. Wilber

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

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Statutory Unitization
September 17, 1998
8/25/98

I also wish to receive the following services (for an extra fee):
 1. ☐ Addressee's Address
 2. ☐ Restricted Delivery
 Consult postmaster for fee.

3. Article Addressed to:
 Lynn P. Yedinak
 1300 Hawthorne Lane
 Hinsdale, IL 60521

4a. Article Number
 P378 176 532

4b. Service Type
☐ Registered
☐ Express Mail
☐ Return Receipt for Merchandise
☐ Certified
☐ Insured
☐ COD

7. Date of Delivery
 8/28/98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)
 X Y Yedinak

PS Form 3811, December 1994 102595-98-B-0229 Domestic Return Receipt

Thank you for using Return Receipt Service.

SEND
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☐ Attach
☐ Write
☐ The Re
☐ deliver

Burlington
Statutory Unitization
September 17, 1998
8/25/98

I also wish to receive the following services (for an extra fee):
 1. ☐ Addressee's Address
 2. ☐ Restricted Delivery
 Consult postmaster for fee.

3. Article Addressed to:
 Gene Day Costello
 26672 Sierra Vista
 Mission Viejo, CA 92692

4a. Article Number
 P378 176 533

4b. Service Type
☐ Registered
☐ Express Mail
☐ Return Receipt for Merchandise
☐ Certified
☐ Insured
☐ COD

7. Date of Delivery
 8/27/98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)
 X Gene Day Costello

PS Form 3811, December 1994 102595-97-B-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

SEND
☐ Complete
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☐ Write
☐ The Re
☐ deliver

Burlington
Statutory Unitization
September 17, 1998
8/25/98

I also wish to receive the following services (for an extra fee):
 1. ☐ Addressee's Address
 2. ☐ Restricted Delivery
 Consult postmaster for fee.

3. Article Addressed to:
 George Edward Day IV
 1970 Shore Oak Dr.
 Decatur, IL 62521

4a. Article Number

4b. Service Type
☐ Registered
☐ Express Mail
☐ Return Receipt for Merchandise
☐ Certified
☐ Insured
☐ COD

7. Date of Delivery
 8/27/98

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)
 X George Edward Day IV

PS Form 3811, December 1994 102595-97-B-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?

P 378 176 523

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Mr. Chris Williams
Area Supervisor
Oil Conservation Division
PO Box 1980
Hobbs, NM 88240

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	

Burlington
Statutory Unitization
8/25/98

P 378 176 525

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Sent to
Street & Number

Burlington
Statutory Unitization
September 17, 1998
8/25/98

Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	

Leigh P. Wilber
1014 Western
Northbrook IL 60062

P 378 176 530

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Sent to

Burlington
Statutory Unitization
September 17, 1998
8/25/98

Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	

Christine P. Carbaugh
4611 FM 3126
Livingston TX 77351

UNIT OPERATING AGREEMENT

CORBIN DELAWARE UNIT

LEA COUNTY, NEW MEXICO

Date: June 1, 1998

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12046&12047 Exhibit No. 8
Submitted By:
Burlington Resources
Hearing Date: September 17, 1998

UNIT OPERATING AGREEMENT

CORBIN DELAWARE UNIT

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**UNIT OPERATING AGREEMENT
CORBIN DELAWARE UNIT
LEA COUNTY, NEW MEXICO**

THIS AGREEMENT, entered into as of the 1st day of June, 1998,

WITNESSETH:

WHEREAS, the Parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, for the Development and Operation of the Corbin Delaware Unit, hereinafter referred to as "Unit Agreement" which, among other things, provides for a separate agreement to be entered into by and between Working Interest Owners to provide for Unit operations as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

- 1.1 Confirmation of Unit Agreement.** The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.
- 1.2 Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, the following terms, when used herein, shall have the following meanings:
- 1.2.1 Outside Substances** means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.
- 1.2.2 Unit Production** means all Unitized Substances produced and saved from the Unitized Formation.
- 1.2.3 Oil and Gas** means not only oil and gas as such in combination one with the other but means oil, gas, casinghead gas, casinghead gasoline, condensate, other hydrocarbons or associated minerals, or any combination thereof.
- 1.2.4 Oil and Gas Rights** means the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- 1.2.5 Lessee or Working Interest Owner** means an owner of a Working Interest, as defined in the Unit Agreement.
- 1.2.6 Royalty Owner** means an owner of a Royalty Interest as defined in the Unit Agreement.
- 1.2.7 Unit Participation** of each Lessee mean the sum of the percentages obtained by multiplying the Working Interest of such Lessee in each Tract by the Tract Participation of such Tract and is set forth in Exhibit "D" hereto.
- 1.2.8 Unit Operations** means all operations conducted by the Unit Operator pursuant to the Unit Agreement and this Agreement.

- 1.2.9 **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.
- 1.2.10 **Unit Expense** means all cost, expense or indebtedness incurred by the Unit Operator pursuant to the Unit Agreement and this Agreement.
- 1.2.11 **Person** means any individual, corporation, partnership, common law or statutory trust, association of any kind, the State of New Mexico or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind, or any entity capable of holding an interest in the Unit Area.

ARTICLE 2

EXHIBITS

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

- 2.1.1 **Exhibit A, B, and C** of the Unit Agreement being the Plat of the Unit Area, the Description and Ownership of the Unit Area, and the Tract Participation within the Unit Area, respectively.
- 2.1.2 **Exhibit D**, attached hereto, is a schedule showing the Working Interest owned by each Working Interest Owner in each Tract, and the total Unit Ownership of each Working Interest Owner.
- 2.1.3 **Exhibit E**, attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit E, this Agreement shall govern.
- 2.1.4 **Exhibit F**, attached hereto, contains insurance provisions applicable to Unit Operations.
- 2.1.5 **Exhibit G**, attached hereto, contains Equal Opportunity Clause applicable to Unit Operations.
- 2.1.6 **Exhibit H**, attached hereto, contains the Gas Balancing Agreement applicable to Unit Operations.
- 2.1.7 **Exhibit I**, attached hereto, contains the Memorandum of Unit Operating Agreement.

2.2 **Reference to and Revision of Exhibits.** When reference is made herein to an exhibit, it is to the original exhibit or, if revised, to the last revision. Whenever Exhibit A, B, or C are revised, Unit Operator shall also revise Exhibit D as necessary 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. 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 Authority and Duties.** The Working Interest Owners, using the voting procedures given in Article 4.3, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:

- 3.2.1 Method and Plans of Operation.** The kind, character and method of operation, including any type of pressure maintenance or recovery program to be employed subject to approval of the AO.
- 3.2.2 Drilling of Wells.** The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances for use as an injection well, or for other purposes.
- 3.2.3 Well Abandonment, Use and Conversion.** The abandonment of any well; the use of any well for injection, salt water disposal, or any purpose other than production; or the conversion of the use of any well from one purpose to another. The reactivation of a well which was shut-in or temporarily abandoned to its former use by Unit Operator shall not require prior approval of Working Interest Owners if the estimated expenditure is less than the expenditure limitation specified in Section 3.2.4.
- 3.2.4 Expenditures.** The making of any single expenditure in excess of Fifty Thousand Dollars (\$50,000.00); however approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.
- 3.2.5 Disposition of Unit Equipment.** The selling or otherwise disposing of any item of surplus Unit Equipment, if the current price of new equipment similar thereto is in excess of Fifty Thousand Dollars (\$50,000.00).
- 3.2.6 Appearance Before a Court or Regulatory Agency.** The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, Unit Operator shall act as such representative in the absence of the designation of a different representative by Working Interest Owners. 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; however, the audits shall:
- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
 - (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
 - (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
 - (d) be made upon not less than thirty (30) days written notice to Unit Operator.
- 3.2.8 Audit Exceptions.** The settlement of unresolved audit exceptions.
- 3.2.9 Inventories** The taking of periodic inventories under the terms of Exhibit E.
- 3.2.10 Amendment of Overhead Rates.** The amendment of the overhead rates provided in Section III of Exhibit E.
- 3.2.11 Technical Services.** The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit E.
- 3.2.12 Assignments to Committees.** The appointment of committees to study any problems in connection with Unit Operations.
- 3.2.13 Removal of Operator.** The removal of Unit Operator and the selection of a successor.
- 3.2.14 Changes and Amendments.** The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided by Article 11 of the Unit Agreement.
- 3.2.15 Investment Adjustment.** The adjustment and readjustment of investments.
- 3.2.16 Border Agreements.** The entering into Border Agreements.
- 3.2.17 Termination of Unit Agreement.** The termination of the Unit Agreement as provided therein.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

- 4.1 Designation of Representatives.** Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.
- 4.2 Meetings.** All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice and any meeting called must have a written agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.
- 4.3 Voting Procedure.** Working Interest Owners shall determine all matters coming before them as follows:
- 4.3.1 Voting Interest.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation.
 - 4.3.2 Vote Required.** Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of Working Interest Owners having a combined voting interest of at least eighty percent (80%).
 - 4.3.3 Vote at Meeting by Non-attending Working Interest Owner.** Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram, or facsimile transmission addressed to the representative of Unit Operator if its vote is received prior to the submission of such item to vote at the meeting. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.
 - 4.3.4 Poll Votes.** Working Interest Owners may vote by letter, telegram or facsimile transmission on any matter submitted in writing to the all Working Interest Owners. If no meeting is requested, as provided in Section 4.2, within fourteen (14) days, including holidays and weekends, after a written proposal is sent to Working Interest Owners, the vote taken by letter, telegram or facsimile transmission shall control. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.
 - 4.3.5 Binding Effect of Vote.** All Working Interest Owners shall be bound for their proportionate share of all costs and expenses of Unit Operations approved by the Working Interest Owners by the vote required herein.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

- 5.1 Reservation of Rights.** Working Interest Owners severally reserve to themselves all their rights, powers, authority and privileges, except as 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 that requests the information.

- 5.3 Taking Unitized Substances in Kind.** The Unitized Substances allocated to each Tract shall be taken in kind by the parties entitled thereto by virtue of their ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right at their sole cost and expense to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the taking party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.
- 5.4 Failure to Take in Kind.** If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right but not the obligation, subject to revocation at will by the party owning the share, to purchase for its own account for not less than the same price the Unit Operator receives in an arms length transaction for its own Unit production at the Unit; 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 (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto on an individual Tract basis in accordance with applicable laws and regulations.
- 5.5 No Sharing of Market.** Nothing herein shall be construed to provide directly or indirectly for any cooperative refining, joint sale or marketing of Unit Production.
- 5.6 Reversionary Interest.** When a Tract Ownership will change due to the payout (or multiple payouts) of a well within the Unit, the balance remaining to be recovered will be calculated on an allocated Tract basis after the effective date of the Unit. Payout will be deemed to occur the first day following the time that payout occurs.

ARTICLE 6

UNIT OPERATOR

- 6.1 Unit Operator.** Burlington Resources Oil & Gas Company is hereby designated as the initial Unit Operator.
- 6.2 Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be removed for cause, at any time, by the affirmative vote of two or more Working Interest Owners representing eighty percent (80%) or more of the Working Interest after excluding the interest of the Unit Operator. Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period. Unit Operator shall be deemed to have resigned if it no longer owns a working interest in the unit area, effective as of the date of transfer of such working interest. In the event Unit Operator contracts to sell all of its working interest in the unit area to a party not a subsidiary, parent or sister corporation, then Unit Operator may require a vote to elect a successor Unit Operator. Such vote (i) shall be conducted as if Unit Operator had resigned, (ii) shall become effective only if the sale of Unit Operator's Working Interest is consummated, (iii) may include Unit Operator's intended transferee as a nominee for successor Unit Operator, and (iv) shall take Unit Operator's voting percentage into account, with Unit Operator being permitted to vote for its intended transferee. A transfer of Unit Operator's Working Interest to a subsidiary, parent or sister corporation shall not be deemed a resignation. However, should a transfer of Unit Operator's Working Interest be made to a subsidiary, parent or sister corporation, the Unit Operator upon written request shall supply documentation supporting financial stability of said subsidiary, parent or sister corporation.

- 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. In selecting a successor Unit Operator, the affirmative vote of three (3) 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 two or more other Working Interest Owners have 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.

ARTICLE 7

AUTHORITY AND DUTIES OF UNIT OPERATOR

- 7.1 Exclusive Right to Operate Unit.** Subject to the provisions of this Agreement, 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 losses sustained or liabilities incurred, even if such losses or liabilities are the result of Unit Operator's own negligence, unless such losses or liabilities result from its gross negligence or willful misconduct.
- 7.3 Liens and Encumbrances.** Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except those provided for in Article 11.
- 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.
- 7.5 Records.** Unit Operator shall keep correct books, accounts, and records of Unit Operations.
- 7.6 Reports to Working Interest Owners.** Unit Operator shall furnish Working Interest Owners 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.
- 7.8 Engineering and Geological Information.** Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the logs and other engineering and geological data pertaining to wells drilled for Unit Operations.
- 7.9 Expenditures.** Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. In the event of an emergency, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.
- 7.10 Wells Drilled by Unit Operator.** All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the usual rates prevailing in the area, and the work shall be

performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

- 7.11 **Border Agreements.** Unit Operator may, after determination of the need therefor by Working Interest Owners in accordance with the voting procedure set forth in Article 4, enter into border agreements with respect to lands adjacent to the Unit Area including those owned or operated by Unit Operator for the purpose of coordinating operations. Any border agreement negotiated by the Unit Operator must be approved by Working Interest Owners in accordance with the voting procedure set forth in Article 4. Failure to respond within thirty (30) days of receipt of a written request for approval will constitute approval.

ARTICLE 8

TAXES

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

Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist same.

If the ad valorem taxes are based in whole or in part upon separate valuations of each Party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Parties hereto in proportion to the tax value generated by each Party's Working Interest.

- 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 with respect to the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

- 9.1 **Insurance.** Unit Operator, with respect to Unit Operations, shall:
- (a) provide insurance or other protection as set forth in Exhibit "F."

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 **Wells and Well Equipment.** All useable wells as defined in Article 10.1.4 in the Unitized Formation together with the casing, tubing and downhole equipment **therein** up to and including all well head connections.

10.1.2 **Lease and Operating Equipment.** All lease and operating equipment, salt water disposal wells and facility systems related to the Unitized Formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations, or

10.1.2.1 Unit Operator deems necessary for the temporary convenience of the Unit. This shall include, but is not limited to, nonuseable wells (those not "Useable" pursuant to Article 10.1.4) that are completed in the Unitized Formation and capable of producing Unitized Substances. This equipment shall be retained on a loan basis for a period of time not to exceed eighteen (18) months. If this equipment is not returned within the period provided the Unit will purchase it as the same evaluation as the original inventory. The Unitized Formation will be abandoned per State requirements prior to return of nonuseable wells.

10.1.3 Non-Useable Wells. Unit may accept non-usable wellbores. Wellbores accepted without warranty of useable condition will be accepted without compensation to the owner(s) dedicating the wellbore to the Unit. Such wells will be accepted by the Unit only if cost estimates to workover or complete the wellbore in the unitized interval is less than the cost estimate to drill and complete a new well. Wellbores that will not benefit Unit operations will not be accepted by the Unit.

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10.1.4 Useable Wellbore Definition. Useable wellbores are defined as wells with status as follows:

- (a) Wells active on Effective Date of Unitization will be accepted as useable if no zones other than the Unitized Formation are open and upon first entry by the Unit Operator the wellbore passes both a casing integrity test, defined as pressure testing a 500 psi for 30 minutes with a 10% tolerance (hereinafter "casing integrity test"), and a Bradenhead Integrity Test, defined as a test to insure there is no gas or liquid flow nor any sustained pressure from any casing annulus (hereinafter "Bradenhead Test") or in accordance with the State policies for casing integrity and Bradenhead tests at the time of unitization. It is the responsibility of the present operator of each well to be included in the Unit, to install the risers and valves necessary to perform a Bradenhead Test. If zones above the Unitized Formation are open, the non-unitized zones must be cement squeezed to isolate the Unitized Formation, pressure tested to 500 psi for 30 minutes (with a 10% tolerance) or in accordance with the State policy at the time of unitization, and cement in the production casing drill out.
- (b) Wells closed-in or temporarily abandoned on Effective Date of Unitization will be accepted as useable if no zones other than the Unitized Formation are open (as above) and the well is clear and free of obstructions from the surface to the depth of deepest production, or to the latest plugged back total depth, in the Unitized Formation prior to being closed in. The well must pass a casing integrity test and a Bradenhead Test on or before first entry by the Unit Operator.
- (c) Currently plugged and abandoned recompleted wells that have previously produced from the Unitized Formation will be accepted as useable if they are restored to the Unitized Formation's last producing completion interval, are not open in non-unitized zones, are clear and free of obstructions from the surface to the latest plugged back total depth prior to cessation of production, and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator.
- (d) Alternate wells from existing wellbores will be accepted as useable if all non-unitized zones have been abandoned (deeper zones plugged back with a cast iron bridge plug or cement retainer capped with 35 feet of cement and pressure tested to 500 psi; shallower zones squeeze cemented, cement drilled out in the production casing and pressure tested), they penetrate the Unitized Formation, have sufficient casing size (5-1/2") to be deepened or have at least (4-1/2") casing set in the Unitized Formation, are adequately cemented and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator.

10.1.5 Wellbores Made Useable. Once accepted by the Unit, wellbore owners may request that remedial work required to make a non-useable wellbore "Useable" be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine the required remedial work is technically feasible and can be performed on a timely basis, the Unit Operator may, at its sole discretion, agree to perform the required work. An AFE for such remedial work will be submitted to Working Interest Owners for their approval prior to the start of the remedial work, with the remedial expenses charged to the joint account.

10.1.6 Wellbores Accepted as "Useable Wellbores." Any wellbore dedicated to the Unit shall not be accepted as a "Useable Wellbore" until it can be entered by the Unit Operator and assessed pursuant to Article 10.1.4. Any well not so assessed within two (2) years following the effective date of unitization shall then be deemed a "Useable Wellbore."

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

10.2 Inventory and Evaluation of Personal Property. Unit Operator shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the Supervision of the Unit Operator and at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least fifteen (15) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit operations. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May 1971, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E," Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and it is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

10.2.1 Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the property in accordance with the provisions of Section 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all parties if approved by Working Interest Owners owning at least sixty-five percent (65%) of the Working Interest in the Unit Area.

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 wells and equipment taken over under Section 10.1. and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment taken over under Section 10.1 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 stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations, shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustments for lease roads or appurtenances thereto.

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

ARTICLE 11

UNIT EXPENSE

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

11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and thereafter, shall prepare budgets, no more frequently than annually, as determined by Working Interest Owners. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense provided by Exhibit "E."

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

11.5 Unpaid Unit Expense. If any Working Interest Owner fails to pay or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the Unit Participation of all such non-defaulting Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 11.6 of this Agreement. While in default, any such defaulting Working Interest Owner forfeits his voting rights and such rights will be shared proportionately by the non-defaulting Working Interest Owners.

11.6 Security Rights. In addition to any other security rights and remedies provided for by the laws of this State with respect to services rendered or materials and equipment furnished under this Agreement, Unit Operator shall have a first and prior lien upon the Working Interest of each Working Interest Owner, including the Unitized Substances and Unit Equipment credited thereto, in order to secure payment of the Unit Expense charged against such Working Interest, together with interest thereon at the rate set forth in Exhibit "E" or the maximum rate allowed by law, whichever is less. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment of defaulting Working Interest Owner's share of Unit Expense. Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written

statement concerning the amount of any default. Operator grants a like lien and security interest to the Working Interest Owners to secure payment of Unit Operator's proportionate share of expense.

11.6.1 Extent of Security. The lien and security interest granted by each Working Interest Owner to Unit Operator and by Unit Operator to the Working Interest Owners under Article 11.6 shall extend not only to such Working Interest Owner's Oil and Gas Rights in the Unit Area (which for greater certainty shall include all of each Working Interest Owner's leasehold interest and leasehold estate in the Unit Area), the Oil and/or Gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating to or arising out of said Oil and Gas Rights, extracted Oil and Gas and said equipment or which are otherwise owned or held by any such Working Interest Owner in the Unit Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral subject to said lien and security interest. Any Working Interest Owner, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Unit Operating Agreement (or a memorandum of this Unit Operating Agreement or other notice of lien) 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. Further, each Working Interest Owner agrees on request of any other Working Interest Owner to execute any financing statement, continuation statement or memorandum of this Unit Operating Agreement necessary in order to perfect the security interest and lien hereby granted under the applicable Uniform Commercial Code or state recording law.

11.7 Carved-out Interest. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest after the effective date hereof shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Section 11.6 are insufficient for the purpose, the security rights provided for herein may be applied against the carved-out interests with such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Section 11.6.

11.8 Uncommitted Royalty. Should a 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 payment computed on the basis of the Unitized Substances that are allocated to such Tract Under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participation at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NON-CONSENT PROVISION

12.1 Election. It is understood and agreed that any Working Interest Owner may elect to be carried hereunder, subject to the following terms and conditions: When Unit Operator circulates the Unit Agreement and Unit Operating Agreement for execution, Unit Operator shall also circulate a ballot under which a party elect: (a) whether it wishes to be carried; and (b) if it elects not to be carried, the amount of Working Interest as to which it is willing to assume additional participation pursuant to the terms hereof. Failure to return said ballot shall be deemed an election to be carried. In the event that, following the receipt of the Working Interest Owners' ratifications by Unit Operator, the Working Interest Owners, collectively, have not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall give all Working Interest Owners that have elected to Participate the option to increase the amount of additional participation they are willing to assume within ten (10) days of receiving notice of such option. Thereafter, Unit

Operator may elect to assume additional participation. If, following such contact, the Working Interest Owners, collectively, have still not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall not proceed with the Unitization which is the subject of this agreement. It is understood and agreed that, if the Unit Operating Agreement and the Unit Agreement do become effective under the respective terms thereof, and any parties that did not previously ratify the Unit Operating Agreement and the Unit Agreement, nevertheless become Working Interest Owners as a result of the Oil Conservation Division of the State of New Mexico (the "Division") approving this Unit pursuant to the New Mexico Statutory Unitization Act, such Working Interest Owners shall have the right to elect to participate in the Unit and to elect an amount of additional participation that they are willing to assume within thirty (30) days after said approval by the Division. Once all parties have made the elections allowed under the provisions hereof, the interest of those Working Interest Owners that have elected to be carried shall be allocated among those Working Interest Owners that have elected to participate in proportion to their Working Interest in the Unit, provided that no Working Interest Owner shall be allocated any additional participation in excess of the amount of participation which said Working Interest Owner has elected to assume.

12.2 Non-Consent Penalty. The entire cost and risk of conducting operations shall be borne by the Working Interest Owners in the proportion that they have elected to participate pursuant to the terms hereof (hereinafter, such Working Interest Owners shall be referred to as "Consenting Parties"). Each Working Interest Owner that has elected to be carried (hereinafter, such Working Interest Owners shall be referred to as "Non-Consenting Parties") shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Parties' share of Unit Production (including its share of any Outside Substances produced and sold) until the proceeds of the sale of such share, calculated at the well, or the market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty or/and overriding royalty payable out of or measured by the production from such well accruing with respect to such interest) shall equal the Unit Expense accruing for such interest plus an amount equal to 200% of all of such Unit Expense allocated to such Non-Consenting Parties' Working Interest, it being further understood and agreed that the unpaid balance of any amount payable out of a Non-Consenting Party's interest hereunder (including the additional 200% of such expenses provided for above) shall bear interest at the rate of 2% above prime rate as established by the Chase Manhattan Bank of New York City to be determined monthly, or at the maximum contract rate permitted by the applicable usury laws, whichever is the lesser. It is expressly understood and agreed that, notwithstanding anything contained herein to the contrary, the 200% penalty provided for above shall be applied as follows: For any month in which a Non-Consenting Party's share of Unit Expense exceeds its share of Unit Revenues, the 200% penalty shall be applied to the difference between such expenses and revenue, and the resulting amount shall be added to the Non-Consenting Party's unpaid balance. For any month in which a Non-Consenting Party's share of Unit revenues exceeds its share of Unit expenses, no penalty shall be charged on such expenses, and the difference between such revenues and expenses shall be applied to such Non-Consenting Party's unpaid balance.

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

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

ARTICLE 13

NON-UNITIZED FORMATIONS

- 13.1 **Right to Operate.** Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area, other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than the Unit Operator shall produce Unitized Substances. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely, including but not limited to a satisfactory drilling mud program and casing cement program through the Unitized Formation.
- 13.2 **Dual Completions.** There shall be no dual completions of wells within the Unit Area as to the Unitized Formation and another formation.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

- 14.1 **Individual Liability.** The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.
- 14.2 **Settlements.** Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty-Five Thousand Dollars (\$25,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "E." If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.
- 14.3 **Notice of Loss.** Unit Operator shall report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage not covered by insurance carried for the benefit of Working Interest Owners.
- 14.4 **Force Majeure.** Any obligation imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by: strike, fire, war, civil disturbance, act of God, Federal, state or municipal laws, any rule, regulation or order of a governmental agency, inability to secure materials or by any other cause beyond the reasonable control of such party. No party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to any of the causes set forth in this Section.

ARTICLE 15

TITLES

- 15.1 Warranty and Indemnity.** Each Working Interest Owner represents and warrants that it is the owner of the respective working interests as shown to be owned by it on appropriate Exhibits to this Agreement, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the 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 Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.
- 15.2 Failure Because of Unit Operations.** The failure of title to any Working Interest in any Tract because of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.
- 15.3 Unleased Interests Treated as Leased.** If a Working Interest Owner owns in fee all or in a part of the Oil and Gas Rights in any Tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract to the extent of seven-eighths (7/8) of its interest therein and a Royalty Interest with respect to the remaining one-eighth (1/8) interest therein.
- 15.4 Waiver of Rights to Partition.** Each Lessee and Working Interest owner hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the interval of the formation unitized hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.
- 15.5 Notice of Transfer of Title.** No change of title shall be binding on the Unit or Unit Operator until the time specified in Section 15.6 hereof. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligations of its predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the party or parties acquiring such interest all benefits attributable to such interest.
- 15.6 Effect of Title Transfer.** No assignment or other transfer or disposition of any interest subject to this Agreement shall be effective as to Unit Operator or the other Working Interest Owners hereto until the first day of the month following the month in which (i) Unit Operator receives an authenticated copy of the instrument evidencing such assignment, transfer or disposition, and (ii) the person receiving such assignment, transfer or disposition has become obligated by instrument satisfactory to Unit Operator to observe, perform and be bound by all of the covenants, terms and conditions of this Agreement. Prior to such date, neither Unit Operator nor any other Working Interest Owner shall be required to recognize such assignment, transfer or disposition for any purpose but may continue to deal exclusively with the Working Interest Owner making such assignment, transfer or disposition in all matter under this Agreement including billings. No assignment or other transfer or disposition of an interest subject to this Agreement shall relieve a Working Interest Owner of its obligations accrued prior to the effective date aforesaid. Further, no assignment, transfer or other disposition shall relieve any Working Interest Owner of its liability for its share of costs and expenses which may be incurred in any operation to which such Working Interest Owner has previously agreed or consented prior to the effective date aforesaid for the drilling, testing, completing and equipping, reworking, recompleting, side-tracking, deepening, plugging-back, or plugging and abandoning of a well even though such operation is performed after said effective date.
- 15.7 Transfer of Multiple Parties.** If, at any time the interest of any Working Interest Owner is divided among and owned by two or more co-owners, such co-owners shall appoint a single trustee or agent acceptable to Unit Operator with full authority to receive notices,

approve expenditures, receive billings for and approve and pay all such co-owners' share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such Working Interest Owners' interests within the scope of the operations embraced in this Agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. Until the trustee or agent is appointed, the assigning Working Interest Owner shall be considered for all purposes thereof as such trustee or agent with all rights and responsibilities thereof. The trustee or agent appointed or deemed to be appointed hereunder shall be liable to Unit Operator for all costs, expenses and liabilities incurred pursuant to this Agreement attributable to the interest for which the trustee or agent is appointed or deemed to be appointed. Unit Operator shall not be required to account separately for the separate interests represented by the trustee or agent.

ARTICLE 16

NOTICES

- 16.1 Notices.** All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram, or facsimile transmission to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

- 17.1 Withdrawal.** A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transfer must be accepted unless Working Interest Owners decide within ninety (90) days of the delivery date to terminate the unit. The transferred interest shall be owned by the transferees in proportion to their Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same, including the cost of surface restoration of the Unit Area which may be required by law, rule, regulation, order, or contract, and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

- 17.2 Limitation on Withdrawal.** Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8th) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to

such burdens. A transfer of title, assignment, or conveyance by a party hereto shall not alone be deemed a withdrawal.

ARTICLE 18

ABANDONMENT OF WELLS

- 18.1 Rights of Former Owners.** If Working Interest Owners determine to permanently abandon 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 sixty (60) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within thirty (30) 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 determined by Working Interest Owners to be the net salvage value of the casing and equipment, through the wellhead, in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.
- 18.2 Plugging.** If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws, rules, and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

- 19.1 Effective Date.** This Agreement shall become effective when the Unit Agreement becomes effective.
- 19.2 Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all wells in the Unit Area have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 18; (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) all surface locations have been restored; and (d) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

- 20.1 Termination.** Upon termination of the Unit Agreement, the following will occur:
- 20.1.1 Oil and Gas Rights.** Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the Parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.
- 20.1.2 Right to Operate.** Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment, through the wellhead, in and on the wells taken over, by filing all applicable regulatory forms for change of operator and financial security, by agreeing upon abandonment to plug each well and assume all surface restoration obligations and any other expense associated with non-unit operations in compliance with applicable laws, rules, regulations, orders and contractual obligations.
- 20.1.3 Salvaging Wells.** Unit Operator shall salvage as much of the Unit Equipment 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 and

the surface of the Unit Area restored in compliance with applicable laws, rules, regulations, orders, and contractual obligations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations, including but not limited to facilities and surface restoration, shall be Unit Expense.

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

ARTICLE 21

APPROVAL

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

21.2 Conflict with Prior Agreements. It is recognized there may be certain existing agreements by and between several of the Lessees or Working Interest Owners hereto, covering a portion of the Oil and Gas Rights subject to this Operating Agreement. In case of any inconsistency or conflict between this Operating Agreement and those certain agreements, this Operating Agreement shall govern.

ARTICLE 22

GOVERNMENTAL REGULATIONS

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

ARTICLE 23

OTHER PROVISIONS

23.1 Lease Burdens and Disbursement Obligations. Each Working Interest Owner hereby agrees to pay or cause to be paid royalty, excess royalty and overriding royalty portion(s) due on proceeds realized from the sale of its share (as listed on Exhibit "C") of the sale of such Unitized Substances.

23.2 Attorney's Fees. In the event Unit Operator shall ever be required to bring legal proceedings in order to collect any sums due from any Working Interest Owner under this Agreement, then Unit Operator shall also be entitled to recover all court costs, cost of collection, and a reasonable attorney's fee, which the lien provided for under Sections 11.6 and 11.6.1 shall also secure.

23.3 Bankruptcy. If, following the granting of relief under the Bankruptcy Code to any Working Interest Owner hereto as debtor thereunder, this Agreement should be held to be

an executory contract within the meaning of 11 U.S.C. Section 365, then the Unit Operator, or (if the Unit Operator is the debtor in bankruptcy) and other Working Interest Owner, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Unit Operating Agreement. In the event of an assumption, Unit Operator or said other Working Interest Owner shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

23.4 Applicable Law. All claims and suits between any of the parties hereto, made or instituted and based in whole or in part on any provisions of this Agreement, shall be resolved using the laws of the State of New Mexico.

23.5 Media Release. Operator shall have the principal responsibility for issuance of press releases concerning the Unit (but shall not be liable for failure or error in exercising such responsibility), and each other party hereto may issue approved material without restriction. Nothing herein contained, however, shall preclude any party hereto from making such disclosures as may be required by any applicable law, order, rule, regulation or ordinance.

No party hereto shall distribute any information or photographs to the press or other media without the approval of the majority of the parties hereto pursuant to Article 4.3.2.

ARTICLE 24

SUCCESSORS AND ASSIGNS

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

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

UNIT OPERATOR:

BURLINGTON RESOURCES
OIL & GAS COMPANY

Date: _____

Dennis Sledge, Attorney-in-Fact

UNIT NON-OPERATORS:

SANTA FE ENERGY RESOURCES, INC.

Date: _____

Printed Name: _____
Title: _____

CENTRAL RESOURCES, INC.

Date: _____

Printed Name: _____

Title: _____

RKC, INC.

Date: _____

Printed Name: _____

Title: _____

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by Dennis Sledge, Attorney-in-Fact of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, on behalf of said corporation.

Notary Public

STATE OF TEXAS §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by _____, _____ of SANTA FE ENERGY RESOURCES, INC. a _____ corporation, on behalf of said corporation.

Notary Public

STATE OF COLORADO §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by _____, _____ of CENTRAL RESOURCES, INC., a _____ corporation, on behalf of said corporation.

Notary Public

STATE OF CONNETICUT §
§
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998,
by _____ of RKC, INC.
_____ corporation, on behalf of said corporation.

Notary Public

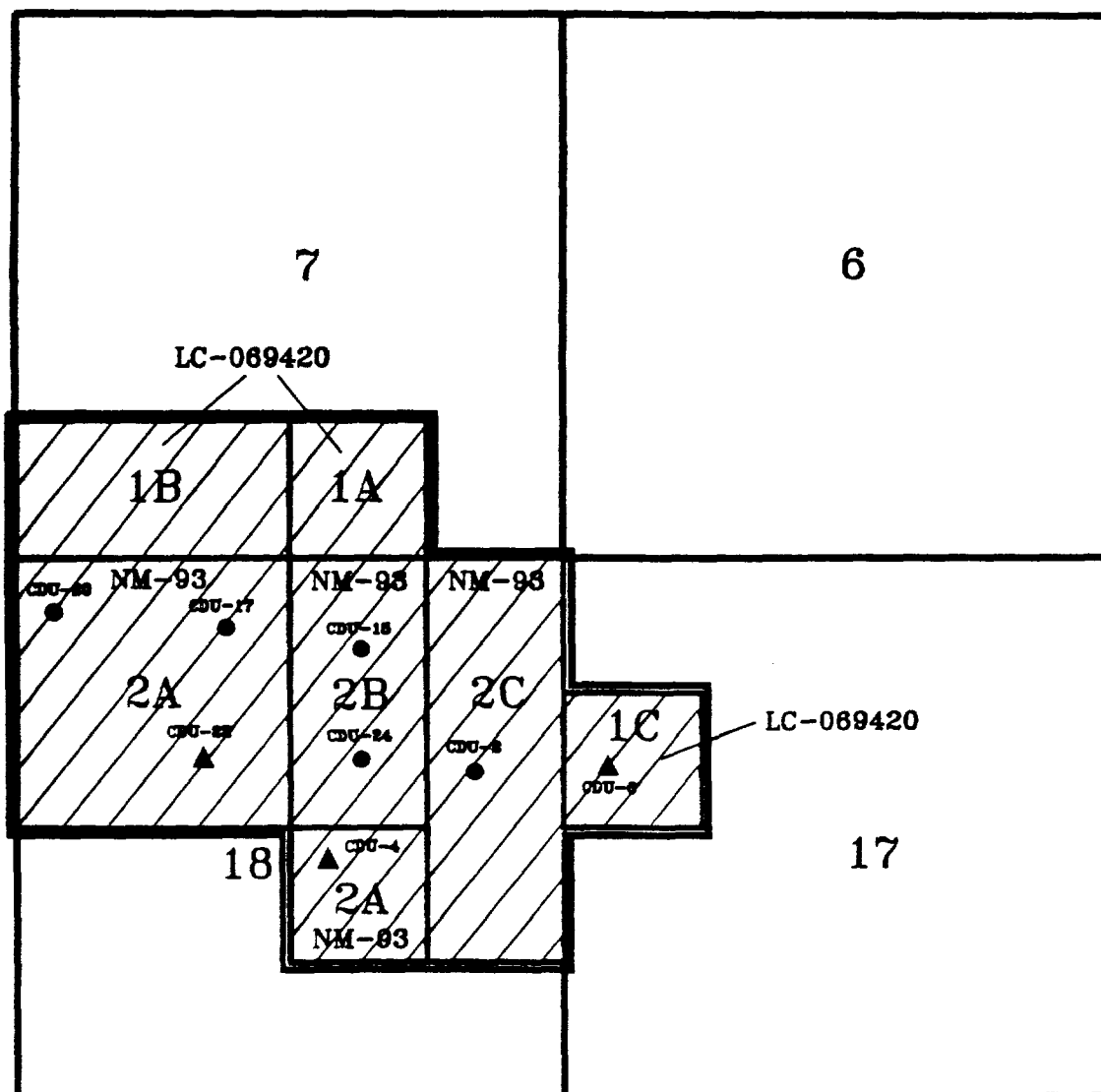
Exhibit "A"

to Unit Operating Agreement

Corbin Delaware Unit

Lea County, New Mexico

TOWNSHIP 18 SOUTH, RANGE 33 EAST



— UNIT BOUNDARY
 1B TRACT NUMBER
 ▨ FEDERAL LANDS
 566.36 Acres

Exhibit "B"

Attached to and made a part of the Corbin Delaware Unit Operating Agreement dated June 1, 1998

Tract #	Description of Land	Acres	Serial No. Expiration	Basic Royalty Owner	Percentage	Lessee of Record	Percentage	Overriding Royalty Owner	Percentage	Working Interest Owner	Percentage
1A	SW/4 SE/4, Section 7, T18S, R33E, Lea County, New Mexico	40	LC-069420 HBP	U.S.A.	12.5%	Altura Ltd. Conoco Inc.	50% 50%	Leigh P. Wilber Cristine P. Wiseman Constance P. Claassen Lynn P. Yedinak Gene Day Costello George Edward Day, IV Altura Energy, Ltd.	0.609375% 0.609375% 0.609375% 0.609375% 1.218750% 1.218750% 0.542950%	Burlington Resources Oil & Gas Company Santa Fe Energy Resources, Inc. Central Resources, Inc. RKC, Inc.	78.550000% 18.768750% 2.279063% 0.402188%
1B	Lot 4, SE/4 SW/4, Section 7, T18S, R33E, Lea County, New Mexico	82.09	LC-069420 HBP	U.S.A.	12.5%	Altura Ltd. Conoco Inc.	50% 50%	Leigh P. Wilber Cristine P. Wiseman Constance P. Claassen Lynn P. Yedinak Gene Day Costello George Edward Day, IV Altura Energy, Ltd.	0.609375% 0.609375% 0.609375% 0.609375% 1.218750% 1.218750% 0.542950%	Burlington Resources Oil & Gas Company Santa Fe Energy Resources, Inc. Central Resources, Inc. RKC, Inc.	78.550000% 10.725000% 9.116250% 1.608750%
1C	SW/4 NW/4, Section 17, T18S, R33E, Lea County, New Mexico	40	LC-069420 HBP	U.S.A.	12.5%	Altura Ltd. Conoco Inc.	50% 50%	Leigh P. Wilber Cristine P. Wiseman Constance P. Claassen Lynn P. Yedinak Gene Day Costello George Edward Day, IV	0.609375% 0.609375% 0.609375% 0.609375% 1.218750% 1.218750%	Burlington Resources Oil & Gas Company Central Resources, Inc. RKC, Inc.	78.550000% 18.232500% 3.217500%
2A	Lots 1 & 2, E/2 NW/4, NW/4 SE/4, Section 18, T18S, R33E, Lea County, New Mexico	204.27	NM-93 HBP	U.S.A.	12.5%	Burlington Resources Oil & Gas Company	100%	Altura Energy, Ltd.	1.407650%	Burlington Resources Oil & Gas Company Santa Fe Energy Resources, Inc. Central Resources, Inc. RKC, Inc.	78.550000% 18.768750% 2.279063% 0.402188%

Exhibit "B"
Attached to and made a part of the Corbin Delaware Unit Operating Agreement dated June 1, 1998

Tract #	Description of Land	Acres	Serial No. Expiration	Basic Royalty Owner	Percentage	Lessee of Record	Percentage	Overriding Royalty Owner	Percentage	Working Interest Owner	Percentage
2B	W/2 NE/4, Section 18, T18S, R33E, Lea County, New Mexico	80	NM-93 HBP	U.S.A.	12.5%	Burlington Resources Oil & Gas Company	100%	Altura Energy, Ltd.	2.144995%	Burlington Resources Oil & Gas Company Santa Fe Energy Resources, Inc.	78.550000% 21.450000%
2C	E/2 NE/4, NE/4 SE/4, Section 18, T18S, R33E, Lea County, New Mexico	120	NM-93 HBP	U.S.A.	12.5%	Burlington Resources Oil & Gas Company	100%			Burlington Resources Oil & Gas Company Central Resources, Inc. RKC, Inc.	78.550000% 18.232500% 3.217500%
	Total Unit Acres	566.36									