EXHIBIT 4

Proposed Unit Operating Agreement
East Shugart (Delaware) Unit Hearing

UNIT OPERATING AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

EAST SHUGART (DELAWARE) UNIT

EDDY AND LEA COUNTIES, NEW MEXICO

UNIT OPERATING AGREEMENT
EAST SHUGART (DELAWARE) UNIT
EDDY AND LEA COUNTIES, NEW MEXICO

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UNIT OPERATING AGREEMENT
EAST SHUGART (DELAWARE) UNIT
EDDY AND LEA COUNTIES, NEW MEXICO

THIS AGREEMENT, is entered into as of the 1st day of February, 1999, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed an agreement entitled "Unit Agreement, EAST SHUGART (DELAWARE) UNIT, Eddy and Lea Counties, New Mexico", which agreement, being referred to as the "Unit Agreement", among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined;

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

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

1.1 CONFIRMATION OF UNIT AGREEMENT. The Unit Agreement is hereby confirmed and by reference made a part of this 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 AMENDMENT OF JOINT OPERATING CONTRACTS AND OTHER AGREEMENTS. The provisions of existing joint operating contracts and other agreements pertaining to the Unitized Substances or the Unitized Formation or operations with respect to either are amended to the extent necessary to make them conform to the provisions of this Agreement, but otherwise shall remain in effect.

ARTICLE 2
EXHIBITS

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

2.1.1 EXHIBITS A, A-1, B, and C of the Unit Agreement.

2.1.2 EXHIBIT D attached hereto is a schedule showing the Unit Participation of each Working Interest Owner in each Tract, and the total Unit Participation of each Working Interest Owner. Unit Participations shall be determined as provided in Section 13. of the Unit Agreement. Exhibit D, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error and revised as herein authorized.

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 the Gas Balancing Agreement.

2.1.6 EXHIBIT H attached hereto is an Equal Opportunity Clause.

2.1.7 EXHBIT I attached hereto is the Recording Supplement to the Unit Operating Agreement and Financing Statement.

2.2 REVISION OF EXHIBITS. Whenever Exhibits A, A-1, and B are revised, Exhibits C and D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibits B and D from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

2.3 REFERENCE TO EXHIBITS. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 OVERALL SUPERVISION. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations 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 AUTHORITY AND DUTIES. The matters with respect to which 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 the type or types of pressure maintenance, secondary recovery, or other enhanced 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, deepening, abandonment, or change of status of any well, or the use of any well for injection, salt water disposal, or other purposes, or the acquisition of wells for Unit Operations.

3.2.4 EXPENDITURES. The making of any single expenditure in excess of Twenty-five Thousand Dollars ($25,000.00); however, 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 well, including necessary flow lines, separators, and lease tankage. No separate approval shall be required for any expenditure authorized as part of some other expenditure. If Operator prepares an AFE for its own use for any single expenditure costing less than $25,000.00, Operator upon request shall furnish the requesting Working Interest Owners a copy of its AFE.

3.2.5 DISPOSITION OF UNIT EQUIPMENT. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Twenty Five Thousand Dollars ($25,000.00) or more.

3.2.6 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,

(d) be made upon not less than thirty (30) days' written notice to Unit Operator, and

(e) be conducted in accordance with COPAS guidelines.

3.2.7 INVENTORIES. The taking of periodic inventories under the terms of Exhibit E.

3.2.8 TECHNICAL SERVICES. Except as provided in Article 7, the authorizing of charges to the joint account of all Working Interest Owners for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit E.

3.2.9 ASSIGNMENTS TO COMMITTEES. The appointment of committees to study any problems in connection with Unit Operations.

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

3.2.11 The enlargement of the Unit Area, including readjustments of investments pursuant thereto.

3.2.12 The termination of the Unit Agreement.

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 two or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. 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 decide all matters coming before them as follows:

4.3.1 VOTING INTEREST. Each Working Interest Owner shall have a voting interest equal to its Unit Participation at the time of the vote.

4.3.2 VOTE REQUIRED. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of two or more parties owning sixty-five percent (65.0%) or more voting interest.

4.3.3 VOTE AT MEETING BY NONATTENDING WORKING INTEREST OWNER. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, facsimile or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

4.3.4 POLL VOTES. Working Interest Owners may vote on and decide, by letter, facsimile or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as

provided in Article 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter, facsimile or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 RESERVATION OF RIGHTS. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.

5.2 SPECIFIC RIGHTS. Each Working Interest Owner shall have, among others, the following specific rights:

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

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

ARTICLE 6
UNIT OPERATOR

6.1 UNIT OPERATOR. St. Mary Land & Exploration Company is hereby designated as the Unit Operator.

6.2 RESIGNATION OR REMOVAL. Unit Operator may resign at any time. Upon default or failure in the performance of its duties and obligations hereunder, Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having eighty-five percent (85%) or more of the voting interest remaining after excluding the voting interest of 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.

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. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having seventy-five percent (75%) or more of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7
AUTHORITY 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. Included in this right is the right of Unit Operator to employ a project manager or to contract for services incident to Unit Operations. Any such use of a project manager or contract services will be accomplished without incurring charges beyond those provided in this Unit Operating Agreement.

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 except as such may 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 the lien and security interest of Unit Operator and Working Interest Owners granted hereunder.

7.4 EMPLOYEES. The number of employees or contractors used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator.

7.5 APPEARANCE BEFORE A COURT OR REGULATORY AGENCY. Unit Operator shall be responsible for retaining representation to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, nothing herein shall prevent any Working Interest Owner from appearing in person or retaining representation on its own behalf at its sole expense.

7.6 RECORDS. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.7 REPORTS TO WORKING INTEREST OWNERS. Unit Operator shall furnish Working Interest Owners reports of Unit Operations as often as it may deem necessary but no less frequently than annually.

7.8 REPORTS TO GOVERNMENTAL AUTHORITIES. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.9 ENGINEERING AND GEOLOGICAL INFORMATION. Unit Operator shall furnish to a Working Interest Owner, upon written request at the expense of the joint account, one copy of all logs and other engineering and geological data pertaining to wells drilled subsequent to the -Effective Date hereof for Unit Operations insofar as such information pertains to the Unitized Formation.

7.10 EXPENDITURES. Unit Operator is authorized to make single expenditures not in excess of Twenty-five Thousand Dollars ($25,000.00) 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.

7.11 WELLS DRILLED BY UNIT OPERATOR. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge 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.

7.12 MATHEMATICAL ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the exhibits to this Agreement.

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

7.14 INDEMNITIES. As to any contract executed by Unit Operator with an independent contractor covering operations or services to be performed in connection with Unit Operations, Unit Operator shall require that any indemnification provision in favor of Unit Operator contained therein shall extend to and inure to the benefit of Working Interest Owners in the same manner as Unit Operator.

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 tax authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for

Unit Operations. Unit Operator may, at Unit Expense, engage the services of tax consultant(s) for purposes of evaluating, contesting and negotiating any ad valorem taxes. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the account of all Working Interest Owners; however if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8th) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentages of tax value generated by each party's working interest. 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 the same.

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) comply with the Workmen's Compensation Laws of the State of New Mexico,

(b) carry Employer's Liability and other insurance required by the laws of the State of New Mexico, and

(c) provide other insurance as set forth in Exhibit F.

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

10.1 PERSONAL PROPERTY TAKEN OVER. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 WELLS. All wells completed in the Unitized Formation.

10.1.2 WELLS AND LEASE EQUIPMENT. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operations of such wells which Working Interest Owners determined is necessary or desirable for conducting Unit Operations.

10.1.3 RECORDS. A copy of all production and well records for such wells.

10.2 INVENTORY AND EVALUATION OF PERSONAL PROPERTY. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over by the Unit Operator under Article 10.1.2. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit E except, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory and evaluation in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 WELL BORE ADJUSTMENT. The Working Interest Owners, in adjusting investment, may allocate a reasonable value for each well bore.

10.4 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 Article 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 Article 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. Each Working Interest Owner shall be charged or credited with the net cash amount necessary to effect such readjustment of the capital investment account., Such net credit or net charge is hereinafter referred to as the "Investment Adjustment".

10.5 GENERAL FACILITIES. The acquisition of warehouses, warehouse stocks, lease houses, camps, field operating systems, wells (not governed by Article 10.1.1 above) 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.

10.6 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
STATUTORY UNITIZATION PROVISIONS

11.1 STATUTORY UNITIZATION PROVISIONS. It is hereby agreed that if the Unit Agreement and the Unit Operating Agreement become effective under the terms hereof, and any parties that did not previously ratify the Unit Agreement and the Unit Operating Agreement nevertheless become Working Interest Owners pursuant to the terms of the Statutory Unitization Act (NMSA 1978 Section 70-7-1, et seq. as amended effective May 21, 1986), the interest of such Working Interest Owner (hereinafter referred to as a "Non-Consenting Party") shall be subject to the penalties (hereinafter referred to as "Non-Consent Penalties") set forth in Article 11.2 below.

Following Statutory Unitization, the Unit Operator shall offer the interest of such Non-Consenting Party proportionately to those parties who voluntarily joined the Unit (hereinafter referred to as "Consenting Parties"). Such Consenting Parties shall have the option to increase the amount of participation they are willing to assume. Consenting Parties shall have fifteen (15) days from receipt of notice of available Working Interest and the initial amount of the costs to be carried associated therewith to elect to 1) limit participation to such party's interest as shown in Exhibit D, 2) carry only such party's proportionate share of the Non-Consenting Parties' Working Interest, or 3) assume greater than such party's proportionate share of the Non-Consenting Parties' interests. If a Consenting Party fails to make an election within fifteen (15) days of receipt of such election notice, it shall be deemed to have elected to limit its participation to its Exhibit D interest. If one hundred percent (100%) interest in the Unit is not subscribed, Unit Operator may elect to assume the outstanding Working Interest. Once all parties have made the elections allowed under the provisions hereof, the Non-Consenting Parties' Working Interest shall be allocated among the Consenting Parties that have elected to assume additional Working Interest. However, no Consenting Party shall be allocated any additional participation in excess of the amount of participation that said Consenting Party has elected to assume. If the Consenting Parties collectively do not agree to assume one hundred percent (100%) participation, Unit Operator shall take steps to terminate the Unit.

With respect to the Investment Adjustment, if the Non-Consenting Party has a net charge against its interest following the Investment Adjustment, such charge shall be considered a Unit Expense allocable

solely to such Non-Consenting Party in the month in which the Investment Adjustment is applied and shall be treated as any other Unit Expense under this Article 11. If such Non-Consenting Owner has a net credit to its account following the Investment Adjustment, the amount of such credit shall be applied to the outstanding balance of such Non-Consenting Party in the same manner as revenue in the month in which the Investment Adjustment is applied. If the amount of such credit is sufficient to cover all of such Non-Consenting Party's share of the initial costs of unitization (including pre-unitization costs and its share of any costs for operations included in the initial approved Plan of Operations) (see Section 11. of the Unit Agreement) plus the Non-Consent Penalty set forth below, the Working Interest of such Non-Consenting Party shall vest with such party and such party shall become a Working Interest Owner as though it had voluntarily joined the Unit.

11.2 NON-CONSENT PENALTY. All Unit Expense, including the Investment Adjustment, shall be borne by the Consenting Parties in the proportions they have elected to participate pursuant to Article 11.1 above. Each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests and elections, all of such Non-Consenting Party's share of the proceeds from the sale of Unitized Substances (including its share of any Outside Substances produced and sold) until such proceeds, calculated at the well with appropriate deductions for compression, gathering, transportation and marketing, or the market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty, including overriding royalty, payable out of or measured by the production from the unit accruing with respect to such interest) shall equal all Unit Expense, including the Investment Adjustment (whether a charge or a credit), accruing for such interest plus an amount equal to two hundred percent (200%) allocated proportionately to such Non-Consenting Party's Working Interest. It is expressly agreed that the 200% penalty provided for herein shall be applied as follows. For any month in which a Non-Consenting Party's share of Unit Expense exceeds its share of the proceeds from the sale of Unitized Substances, the 200% penalty shall be applied to the difference between such expenses and the proceeds, 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 such proceeds exceeds its share of Unit Expenses, the difference between such proceeds and Unit Expense shall be applied against such Non-Consenting Party's unpaid balance. When the Non-Consenting Party's share of Unit Expense plus the 200% penalty has paid out, the Working Interest of the Non-Consenting Party, including its corresponding share of Unit revenue and Unit Expense, and the voting rights represented thereby, shall vest with such party as though such party had voluntarily joined the Unit.

Any Non-Consenting Party shall have the right, at any time, to pay off the amount of its net unpaid balance (including its Investment Adjustment and the Non-Consent Penalty) and, in the event that any Non-Consenting Party exercises this right, the Working Interest of such Non-Consenting Party shall vest to it in the month following the month of such payment.

ARTICLE 12
UNIT EXPENSE

12.1 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 in effect at the time the expense was incurred. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D. If any party has elected to be a Non-Consenting Party pursuant to Article 11, Exhibit D interests shall be modified accordingly.

12.2 LIABILITY OF PARTIES. 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 Unit Expenses. Accordingly, the liens granted among the parties in Article 12.6 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 partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this Agreement, the parties shall not be considered fiduciaries or to have established a

confidential relationship, however, the parties shall be obligated to act in good faith in their dealings with each other with respect to activities hereunder.

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

12.4 ADVANCE BILLINGS. If gross expenditures for the joint account are expected to exceed $60,000.00 in the next succeeding month's operation, Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit E until paid. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

Notwithstanding the above provision, if any party voluntarily commits its interest to the Unit and then fails to pay its share of the initial cost of unitization (to include actual pre-unitization costs and the Investment Adjustment, if a debit, as well as advance charges for operations set forth in the initial approved Plan of Operations (see Section 11 of the Unit Agreement) Operator may elect, at its option, to treat the interest of such Working Interest Owner, with respect to such initial costs only, as though such Working Interest Owner had not voluntarily joined the Unit but had instead been included in the Unit pursuant to the terms of the Statutory Unitization Provisions of Article 11. For the purposes of this provision only, Operator shall afford such delinquent Working Interest Owner an additional thirty (30) day period within which to pay such charges before making such election.

12.5 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.

12.6 LIEN AND SECURITY INTEREST . Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract and the Unit Area, whether now owned or hereafter acquired, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense and all other obligations hereunder, together with interest to be determined monthly at the rate of three percent (3%) plus the U.S. Treasury three-month discount rate in effect on the first day of the month for each month that the payment is delinquent. Unit Operator grants a like lien and security interest to Working Interest Owners to secure payment of Unit Operator's proportionate share of Unit Expense

To perfect the lien and security interest provided herein, each party agrees to execute and acknowledge a recording supplement in the form attached hereto as Exhibit I, and Unit Operator or any Working Interest Owner 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. Each party represents and warrants to the other parties that the lien and security interest granted by such party to the other parties shall be a first and prior lien and security interest, and each party hereby agrees to maintain the priority of the lien and security interest against all persons acquiring an interest in Oil and Gas Rights covered by this Agreement by, through, or under such party. All parties acquiring an interest in Oil and Gas Rights 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 herein as to all obligations and duties attributable to the interests hereunder whether or not the obligations arise before or after the Oil and Gas Rights are acquired.

To the extent that Unit Operator or Working Interest Owners have a security interest under the Uniform Commercial Code of the state, Unit Operator or Working Interest Owners 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 or Working Interest Owners 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.

12.7 STATUTORY LIENS. 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 the 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 not prohibited by applicable law, the parties agree that Unit Operator may invoke or utilize the Oil and Gas Lien Act (NMSA 1978, Section 70-4-1 through 15) in order to secure the payment to Unit Operator of any sum due hereunder for Unit Expenses.

12.8 UNPAID UNIT EXPENSE. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner (including the Unit Operator) agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner and/or out of the proceeds for the sale of the defaulting party's share of Unitized Substances as provided in Article 12.9 below. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall be secured by the liens and security interest described in Article 12.6, and each paying party may independently pursue any remedy available hereunder or otherwise. While in default, any such defaulting Working Interest Owner forfeits its voting rights and such rights will be shared proportionately by the non-defaulting Working Interest Owners.

12.9 RIGHT TO COLLECT PROCEEDS. Upon default in the payment of its share of Unit Expense by any Working Interest Owner including the Unit Operator, the Working Interest Owners that pay a share of the defaulting party's Unit Expense, 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 defaulting party, including the amount of any non-consent penalty that may be authorized pursuant to Section 12.10.D below, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's or Working Interest Owner's written statement concerning the amount of any default and all parties waive any recourse available against purchasers for releasing production proceeds as provided in this paragraph.

12.10 SUSPENSION OF RIGHTS. In the event that any Working Interest Owner fails to pay any amounts due hereunder for a period of sixty (60) days after such amounts are due, such party shall be considered a defaulting party and the rights of a defaulting party may be suspended hereunder by the election of the nondefaulting parties. Any party may deliver to the defaulting party a notice of default which shall specify the default, specify the action to be taken to cure the default, and specify the actions to be taken by the nondefaulting parties as a result of failure to cure the default. If within thirty (30) days of delivery of such notice, the default has not been cured, any or all of the following actions may result:

(a) Nondefaulting parties or Unit Operator for the benefit of nondefaulting parties may sue (at Unit Expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default until the date of collection at the rate specified in Article 12.6. Nothing herein shall prevent any party from suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

(b) Defaulting party shall no longer have the right to receive information as to any operation conducted hereunder, the right to vote on any matter submitted to the Working Interest Owners, or the right to receive proceeds of production from any well subject to this Agreement.

(c) In the event any party brings legal proceedings to enforce any financial obligation of a party hereunder, the non-defaulting party bringing such proceedings shall be entitled to recover all court costs, costs of collection, and reasonable attorneys' fees, which the lien and security interest provided for herein shall also secure.

(d) If a party remains in default after the 30-day period for curing default, Unit Operator shall have the optional right to declare that such defaulting Working Interest Owner has elected to become a Non-Consenting Party, as provided for in Article 11.1 hereof, and that all unpaid sums shall be subject to a 200% penalty as though said Working Interest Owner had elected to be carried under said Article 11.1. If this right is exercised, the Operator shall offer the interest of such a defaulting Working Interest Owner to the remaining Working Interest Owners under terms and provisions identical to those in the Non-Consent Provisions, Article 11 of this Agreement. Consenting Working Interest Owners shall be deemed to be Consenting Parties as to their share of such defaulting Working Interest Owner's Working Interest with the right to recover a proportionate share of the 200% Non-Consent penalty.

(e) The rights, powers, and remedies conferred in this Article 12 are cumulative, and not exclusive of (1) any and all other rights, powers, and remedies conferred in this Agreement, (2) any and all rights, powers and remedies existing at law or in equity, and (3) any and all other rights, powers and remedies provided in any other agreement between the parties.

12.11 CARVED-OUT INTEREST. If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but not limited to, Article 12.6 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 18 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Articles 12.6, 12.7, 12.8, 12.9 and 12.10, for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 13
NONUNITIZED 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 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.

13.2 MULTIPLE COMPLETIONS. As of the effective date hereof, any well bore in which there is a completion in both the Unitized Formation and any other formation shall be considered as a multiple completion. The Working Interest Owners that have contributed such multiple completion reserve the right to use such well bore for operations in any other formation. It shall be the sole responsibility of the owners of the other formation to furnish and install equipment necessary to segregate the production both in the well and on the surface in a manner acceptable to the Working Interest Owners. If there is a conflict of interest between the Working Interest Owners and any other formation owner with respect to a multiple completion, or the operation thereof, the interest of the Working Interest Owners shall prevail.

13.2.1 REMEDIAL WORK. If it becomes necessary to workover, recondition, redrill, or abandon a well in the other formation, such work shall be performed by and at the sole risk and expense of the owners of the other formation under supervision of Unit Operator. If it becomes necessary to perform like work in the Unitized Formation, such work shall be performed by Unit Operator at Unit Expense.

13.2.2 LIABILITY. The Working Interest Owner shall not be liable or responsible for any damage to or loss of production from the other formation, including the use of such well as an injection well, nor for any damage to such well or to the property, equipment, or facilities used in the operation of such well for production unless such damages result from gross negligence or willful misconduct. Likewise, the owners of the other formation shall not be liable or responsible for any damage to or loss of production from the Unitized Formation, including the use of such well as an injection well, nor for any damage to such well or to the property, equipment or facilities, unless such damage results from gross negligence or willful misconduct.

13.2.3 REDRILLING. In the event it becomes necessary and economically feasible to redrill a well in which there is a multiple completion, the costs of the same shall be mutually agreed upon by the Working Interest Owners and the owners in the other formation.

13.2.4 DIVISION OF EXPENSES. All charges directly attributable to the Unitized Formation in multiple completed wells will be regarded as Unit Expense, and all charges directly attributable to another formation in such well will be borne by the owners of the other formation. When charges cannot be directly attributed to either the Unitized Formation or to the other formation(s), such charges will be divided among the various completed formations equally. Those charges allocated to the Unitized Formation will be regarded as Unit Expense. Charges allocated to other formation(s) will be charged to the owners of such formation(s).

ARTICLE 14
TITLES

14.1 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 D, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or 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 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense as a result of a title failure.

14.2 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.

14.3 TITLE EXAMINATION. Unit Operator is hereby authorized to conduct such title examination and title curative work on any interest in any Tract or Tracts as it deems necessary or advisable from time to time for purposes of unitization and/or Unit Operations; and each Working Interest Owner who owns any interest in any such Tract agrees to cooperate in such title examination and agrees to furnish to Unit Operator all records affecting title, including but not limited to title opinions and abstracts of title, that may be in such Working Interest Owner's possession or control. All costs and expenses incurred in such title examination and curative work conducted for said purposes before or after the Effective Date hereof shall be treated as a Unit Expense.

14.4 WAIVER OF RIGHTS TO PARTITION. Each party hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the Unitized Formation or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 15
LIABILITY, CLAIMS, AND SUITS

15.1 INDIVIDUAL LIABILITY. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners. Each party hereto shall be individually responsible for its own obligations as herein provided.

15.2 SETTLEMENTS. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty-five Thousand Dollars ($25,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving unit Operations.

ARTICLE 16
INTERNAL REVENUE PROVISION

16.1 INTERNAL REVENUE PROVISION. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations. Should there be any requirement that each party hereto furnish further evidence of this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State of New Mexico, or any future income tax laws of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of Subchapter K of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 17
NOTICES

17.1 NOTICES. All notices between the parties authorized or required hereunder, unless otherwise specifically provided, shall be in writing and delivered in person or sent by United States mail, courier service, telex, telecopier or other form of facsimile or telegram, postage or charges prepaid, and addressed to the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4. Notice shall be deemed delivered only when received by the Working Interest Owner to whom the 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, or to the telecopy,

delivered hereunder shall be actual delivery of the notice to the address of the party, or to the telecopy, facsimile, or telex machine of such party. Any responsive notice shall be deemed delivered upon actual receipt at the address of the party, or upon delivery of such notice to the courier or telegraph service, or upon transmittal by telex, telecopy, or facsimile, or when personally delivered to the party to be notified. All oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice.

ARTICLE 18
WITHDRAWAL OF WORKING INTEREST OWNER

18.1 WITHDRAWAL. If any Working Interest Owner desires to be relieved of all obligations and liabilities thereafter accruing, it shall provide written notice of such desire to the Unit Operator and all other Working Interest Owners. If any other Working Interest Owner does not desire to take its proportionate share of such party's Working Interest, it shall notify the Unit Operator within fifteen (15) days of receipt of such notice. If no party objects to taking its proportionate share of the interest of such party desiring to withdraw from the Unit, or if there are objections, if the Unit Operator and or any other remaining Working Interest Owners elect to assume the objecting party's share of such interest, the Unit Operator shall advise the party desiring to withdraw (Withdrawing Party) within fifteen (15) days of the end of such fifteen day notice period that it may withdraw. However, if 100% of the Working Interest of the party desiring to withdraw is not subscribed, the Operator shall inform such party that it may not withdraw.

If permission to withdraw is granted, the Withdrawing Party shall execute an assignment conveying all of its interest in all oil, gas and mineral leases, insofar as such leases lie within the Unit Area and only insofar as said leases cover the Unitized Formation. Such assignment shall include all Working Interest owned by the Withdrawing Party together with the entire interest of such party in any and all wells, materials, equipment and other property within or pertaining to the Unit. Such assignment shall be made to all remaining Working Interest Owners proportionately or in whatever percentages are agreed among the remaining Working Interest Owners. The assignment shall be delivered to the Unit Operator for recordation and dissemination to the assignees named therein. Any assignment made under this provision shall be made with special warranty of title only. However, there shall be no payment to the assignor therefor. The Withdrawing Party shall not be relieved of its liability for any obligation accrued under this Agreement or the Unit Agreement prior to the date Unit Operator advises that it may withdraw.

ARTICLE 19
ABANDONMENT OF WELLS

19.1 RIGHTS OF FORMER OWNERS. If Working Interests Owners decide 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. Said notice shall include the net salvage value of the casing and equipment in and on the well as determined under the terms of Exhibit E attached hereto. Working Interest Owners of the Tract 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 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 determined to be the net salvage value of the casing and equipment . The Working Interest Owners of the Tract, by taking over the well, agree to properly seal off and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations. The Working Interest Owners who take over the well under this provision shall immediately file the necessary forms with the appropriate state and federal agencies showing the change in the operation of such well.

19.2 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 and regulations retaining any salvage value received for the joint account.

19.3 RIGHT OF ACQUISITION OF WELLBORES. If Working Interest Owners of a particular Tract decide to permanently abandon any well within the Unit Area which is NOT included in the Unit prior

to termination of the Unit Agreement, the Working Interest Owners of such well shall give written notice thereof to the Unit Operator, together with the net salvage value of the casing and equipment in and on the well, and Unit Operator, subject to Article 3.2.4 hereof, shall have the option for a period of sixty (60) days after the sending of such notice to notify the Working Interest Owners of such well in writing of any election to take over and own the well for the benefit of the Working Interest Owners. If the value of the casing and equipment in such well exceed $25,000, within ten (10) days of receipt of a notice of the availability of such well, Unit Operator shall notify the Unit Working Interest Owners in writing of the option to acquire the well for Unit Operations. The decision as to whether to take over such well will then be governed by the provisions of Article 4.3.4 hereof. Within ten (10) days after the Unit Operator has notified the Working Interest Owners of the well of any election to take over the well, Unit Operator shall pay the Working Interest Owners of such well, as an expense of the joint account, the net salvage value of the casing and equipment in and on the well. By taking over the well, the Unit Working Interest Owners agree upon abandonment to plug the well in compliance with applicable laws and regulations at the expense of the joint account. The Unit Operator upon taking over the well under this provision shall immediately file the necessary forms with the appropriate state and federal agencies showing the change in the operation of such well.

ARTICLE 20
EFFECTIVE DATE AND TERM

20.1 EFFECTIVE DATE. This Agreement shall become effective when the Unit Agreement becomes effective.

20.2 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 plugged and abandoned or turned over to Working Interest Owners in accordance with Article 19; (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 21
ABANDONMENT OF OPERATIONS

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

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

21.1.2 RIGHT TO OPERATE. Working Interest 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 under the terms of Exhibit E attached hereto, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations and to restore the surface of the lands as required under the terms of any applicable laws, rules, regulations, orders, or contractual obligations.

21.1.3 SALVAGING WELLS. Within six (6) months of agreement to terminate the Unit, Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations and the surface of the lands to be restored as required under the terms of any applicable laws, rules, regulations, orders, or contractual obligations.

21.1.4 COST OF ABANDONMENT. The cost of abandonment of Unit Operations including surface restoration shall be a Unit Expense.

21.1.5 DISTRIBUTION OF ASSETS. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

ARTICLE 22
RIGHTS OF WAYS AND EASEMENTS

22.1 ASSIGNMENT TO UNIT OPERATOR. Each Working Interest Owner having rights of ways, easements or leasehold interest in surface sites necessary for Unit Operations hereby agrees to assign, to the extent of its right and interest, to Unit Operator for the benefit of the Working Interest Owners, a non-exclusive right and interest in and to such interest. A Working Interest Owner having such an interest shall, within ninety (90) days after the Effective Date execute and deliver to Unit Operator, in recordable form, an assignment of such rights and interests, together with copies of the instruments creating such interests and any maps or plats further describing and depicting the affected premises.

22.2 RENTAL PAYMENTS. The owners of such interest agree to make any rental payments or other payments which may become due to avoid termination of any such interest for failure to make such payment prior to 30 days beyond the date formal assignment of such interest to Unit Operator is accomplished as described in this Article 22.1 above. Any payments made under this paragraph shall be a direct charge under Unit Expense.

22.3 RIGHTS OF UNIT OPERATOR. Such interest described in this Article 22.1 above, shall continue in Unit Operator for so long as such are used for Unit Operations, or until released by recordable instrument. In the event a Unit Operator ceases to be such, it shall assign such rights and interests to the successor Unit Operator.

ARTICLE 23
GOVERNMENTAL REGULATIONS

23.1 GOVERNMENTAL REGULATIONS. Working Interest Owners agree to release Unit Operator from any and all losses, damages, 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 successor 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 24
FORCE MAJEURE

24.1 FORCE MAJEURE. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by an act of God, fire, lightning, storm, flood or other acts of nature, strikes, lockouts or other industrial disturbance, acts of civil or military authorities, acts of war, blockade, public riot, explosion, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, unavailability of equipment, or any other cause reasonably beyond the control of Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the parties as promptly as is reasonably practicable.

ARTICLE 25
APPROVAL

25.1 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 instruments 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.

25.2 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 Unit Operating Agreement and those certain agreements, this Unit Operating Agreement shall govern.

ARTICLE 26
SUCCESSORS AND ASSIGNS

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and dates evidenced by their certificates of acknowledgments hereof below their respective signatures.

UNIT OPERATOR:

ST. MARY LAND & EXPLORATION COMPANY

By: _____ Date: February 26, 1999

Milam Randolph Pharo
Vice President - Land & Legal
1776 Lincoln Street, Suite 1100
Denver, Colorado 80203-1080

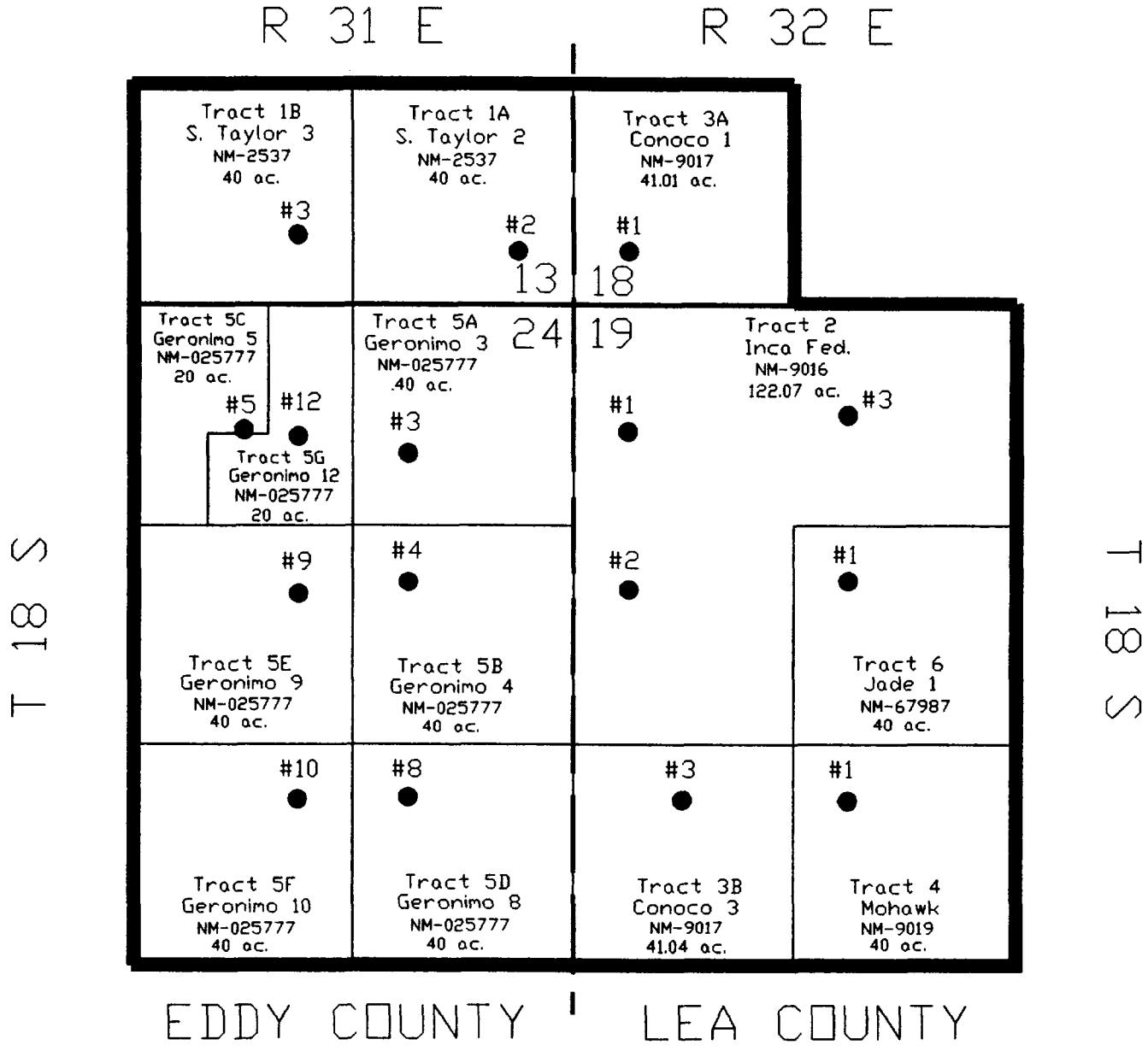
THE STATE OF COLORADO §
§
COUNTY OF DENVER §

This instrument was acknowledged before me on this the 26th day of February, 1999, by Milam Randolph Pharo, as Vice President - Land & Legal of St. Mary Land & Exploration Company, a (Delaware) corporation, on behalf of said corporation.

PATRICIA FLANIGAN NOTARY PUBLIC STATE OF COLORADO

_____
Notary Public, State of COLORADO
Printed Name: Patricia Flanigan
My commission expires: May 15, 2003

EXHIBIT A



604.12 ACRES

ST. MARY LAND & EXPLORATION COMPANY
EAST SHUGART (DELAWARE) UNIT
EDDY & LEA COUNTIES, NEW MEXICO

PROPOSED UNIT BOUNDARY

SCALE: 1" = 1000'

EXHIBIT "A-1"

EAST SHUGART (DELAWARE) UNIT

TRACT DESCRIPTIONS

Tract No.	Tract Name	Status	Tract Operator	Acres	County
1A	S. Taylor 2	HBP	Harvey E. Yates Company	40.00	Eddy
1B	S. Taylor 3	HBP	Harvey E. Yates Company	40.00	Eddy
2	Inca Fed	HBP	St. Mary Land & Exploration Company	122.07	Lea
3A	Conoco 1	HBP	St. Mary Land & Exploration Company	41.01	Lea
3B	Conoco 3	HBP	St. Mary Land & Exploration Company	41.04	Lea
4	Mohawk 1	HBP	St. Mary Land & Exploration Company	40.00	Lea
5A	Geronimo 3	HBP	St. Mary Land & Exploration Company	40.00	Eddy
5B	Geronimo 4	HBP	St. Mary Land & Exploration Company	40.00	Eddy
5C	Geronimo 5	HBP	St. Mary Land & Exploration Company	20.00	Eddy
5D	Geronimo 8	HBP	St. Mary Land & Exploration Company	40.00	Eddy
5E	Geronimo 9	HBP	St. Mary Land & Exploration Company	40.00	Eddy
5F	Geronimo 10	HBP	St. Mary Land & Exploration Company	40.00	Eddy
5G	Geronimo 12	HBP	St. Mary Land & Exploration Company	20.00	Eddy
6	Jade 1	HBP	St. Mary Land & Exploration Company	40.00	Lea
				604.12	

Total Federal Acres:	604.12
Total State Acres	0
Total Fee Acres	0
Total Unit Acres	604.12

EXHIBIT "B"

EAST SHUGART (DELAWARE) UNIT
LEA AND EDDY COUNTIES, NEW MEXICO

TRACT NO.	TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. & EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY/CARRIED WORKING INTEREST OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	PARTICIPATION OF TRACT IN UNIT
1A	S. Taylor No. 2	T18S, R31E Section 13: SE/4 SE/4 Eddy County, New Mexico	40	NM - 2537 HBP	United States of America - 12.5%	Harvey E. Yates Co. (42.081804%); Yates Energy Corp. (19.845696%); Explorers Petroleum Corp. (5.56375%); Spiral Inc. (5.56375%); Stelaron Inc. (25%); Heyco Employees, Ltd. (1.90125%)	Global Natural Resources Corporation of Nevada et al 5.687500%	Harvey E. Yates Co. et al - 100%	0.07587500
1B	S. Taylor No. 3	T18S, R31E Section 13: SW/4 SE/4 Eddy County, New Mexico	40	NM - 2537 HBP	United States of America - 12.5%	Harvey E. Yates Co. (42.081804%); Yates Energy Corp. (19.845696%); Explorers Petroleum Corp. (5.56375%); Spiral Inc. (5.56375%); Stelaron Inc. (25%); Heyco Employees, Ltd. (1.90125%)	Global Natural Resources Corporation of Nevada et al 5.687500%	Harvey E. Yates Co. et al - 100%	0.01659000
2	Inca Federal	T18S, R32E Section 19: Lots 1 & 2 (W/2 NW/4) and NE/4 NW/4 Lea County, New Mexico	122.07	NM-9016 HBP	United States of America *Step Scale 12.5 - 32%	Curry & Thornton (25%); Siete Oil & Gas Corp. (50%) George H. Hunker (25%)	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.26699500
3A	Conoco No. 1	T18S, R32E Section 18: Lot 4 (SW/4 SW/4) Lea County, New Mexico	41.01	NM - 9017 HBP	United States of America *Step Scale 12.5 - 32%	Conoco, Inc.	Five States 1994-E, Ltd. - 12.5%	Higgins Trust, Inc. et al - 100%	0.08530000
3B	Conoco No. 3	T18S, R32E Section 19: Lot 3 (NW/4 SW/4) Lea County, New Mexico	41.04	NM - 9017 HBP	United State of America *Step Scale 12.5 - 32%	Conoco, Inc.	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.05866500

TRACT NO.	TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. & EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY/CARRIED WORKING INTEREST OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	PARTICIPATION OF TRACT IN UNIT
4	Mohawk No. 1	T18S, R32E Section 19: NE/4 SW/4 Lea County, New Mexico	40	NM - 9019 HBP	United States of America - *12.5%;	Gladys Shannon (1%); Elizabeth S. Borgaard (1.21875%); David T. Edwards (1.21875%); Kate N. Edwards (2.4375%); William J. Casey (3.125%); Mildred M. Trammell (3.125%); Trammell Estate (3.125%); Nicholas R. Dupont (20.3125%); E. J. McCurdy Est. (65.0625%)	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.02784
5A	Geronimo No. 3	T18S, R31E Section 24: NE/4 NE/4 Eddy County, New Mexico	40	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.12367000
5B	Geronimo No. 4	T18S, R31E Section 24: SE/4 NE/4 Eddy County, New Mexico	40	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.08685000
5C	Geronimo No. 5	T18S, R31E Section 24: Part of NW/4 NE/4 Eddy County, New Mexico	20	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.125%	St. Mary Land & Exploration Company et al - 100%	0.02293500
5D	Geronimo No. 8	T18S, R31E Section 24: NE/4 SE/4 Eddy County, New Mexico	40	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.125%	St. Mary Land & Exploration Company et al - 100%	0.03188000
5E	Geronimo No. 9	T18S, R31E Section 24: SW/4 NE/4 Eddy County, New Mexico	40	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.06723000
5F	Geronimo No. 10	T18S, R31E Section 24: NW/4 SE/4 Eddy County, New Mexico	40	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.5%	St. Mary Land & Exploration Company et al - 100%	0.02345500
5G	Geronimo No. 12	T18S, R31E Section 24: Part of the NW/4 NE/4 Eddy County, New Mexico	20	NM NM-025777 HBP	United States of America - *12.5%	18-31, Inc.	St. Mary Land & Exploration Company et al - 12.125%	St. Mary Land & Exploration Company et al - 100%	0.02181000
6	Jade No. 1	T18S, R32E Section 19: SE/4 NW/4 Lea County, New Mexico	40	NM - 67987 HBP	United States of America - Oil: *Step-Scale 12.5% - 17%; Gas: 12.5%	Intoil, Inc. (50%); Siete Oil & Gas Corp. (50%)	St. Mary Land & Exploration Company et al - 1.875%	St. Mary Land & Exploration Company et al - 100%	0.09090500
		Total Unit Acres:	604.12		*Subject to Stripper Well qualification on Oil				1.00000000

EXHIBIT "C"

	East Shugart Delaware Unit						
	Tract Participation Factors						
Tract No.	Tract Name	% of Acres	% of Cum Oil	% of Oil Rate	% of OOIP	% of Rem. Prim	Unit Participation
1A	S. Taylor 2	6.62%	8.99%	8.83%	6.24%	8.03%	7.5875%
1B	S. Taylor 3	6.62%	0.00%	0.00%	3.32%	0.00%	1.6590%
2	Inca Fed	20.21%	28.95%	28.07%	26.62%	24.54%	26.6995%
3A	Conoco 1	6.79%	10.77%	11.10%	5.09%	11.76%	8.5300%
3B	Conoco 3	6.80%	2.86%	5.18%	6.75%	7.35%	5.8665%
4	Mohawk 1	6.62%	1.40%	2.25%	3.32%	2.35%	2.7840%
5A	Geronimo 3	6.62%	15.95%	12.37%	11.15%	13.94%	12.3670%
5B	Geronimo 4	6.62%	9.92%	6.02%	10.92%	6.62%	8.6850%
5C	Geronimo 5	3.31%	2.93%	1.75%	3.06%	0.18%	2.2935%
5D	Geronimo 8	6.62%	2.09%	2.59%	4.26%	1.28%	3.1880%
5E	Geronimo 9	6.62%	5.47%	6.65%	6.69%	8.22%	6.7230%
5F	Geronimo 10	6.62%	1.42%	2.39%	2.23%	2.08%	2.3455%
5G	Geronimo 12	3.31%	1.83%	1.75%	3.06%	0.53%	2.1810%
6	Jade 1	6.62%	7.42%	11.05%	7.29%	13.12%	9.0905%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Participation Formula: (5% X Acres) + (15% X Cum Oil) + (25% X Oil Rate) + (40% X OOIP) + (15% X Rem. Prim)

Acres = Number of acres within the tract.
Cum Oil = Amount of Primary oil produced as of 6/1/98.
Oil Rate = Average daily production rate from 1/98 through 5/98.
OOIP = Original Oil In Place.
Rem. Prim. = Remaining unproduced primary reserves.

EXHIBIT "D"

Attached to East Shugart (Delaware) Unit Operating Agreement

		S. Taylor 2	S. Taylor 3	Inca Fed	Conoco 1	Conoco 3	Mohawk	Geronimo 3	Geronimo 4	Geronimo 5	Geronimo 8	Geronimo 9	Geronimo 10"	Geronimo 12	Jade 1	Total Unit Participation	
		Tract 1A	Tract 1B	Tract 2	Tract 3A	Tract 3B	Tract 4	Tract 5A	Tract 5B	Tract 5C	Tract 5D	Tract 5E	Tract 5F	Tract 5G	Tract 6		
OWNER		GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	
Riverhill Energy Corporation	WI			0.02536453	0.00292366	0.00500600	0.00237564	0.00745931	0.00532538	0.00179931	0.00243004	0.00442921	0.00171339	0.00176470	0.00413618	0.06472734	
St. Mary Land & Exploration Company	WI			0.22828073	0.02631292	0.04505429	0.02138092	0.06713385	0.04792844	0.01619377	0.02187049	0.03986292	0.01542049	0.01588231	0.03722560	0.58254672	
Hare Production Company	WI							0.00087596	0.00097706							0.00185303	
Ted E. Bacil	WI				0.00191925			0.00207024	0.00190202	0.00025114	0.00047820					0.00662084	
Norman Barker	WI				0.00341200			0.00989360	0.00694800	0.00137610	0.00191280	0.00537840	0.00187640	0.00130860		0.03210590	
Floyd A. Blakeney	WI			0.00400493	0.00063975	0.00032999	0.00015660	0.00432845	0.00347400	0.00025802		0.00201690		0.00024536	0.00090905	0.01636305	
Borica Oil, Inc.	WI				0.00042650			0.00123670	0.00086850	0.00017201	0.00023910	0.00067230	0.00023455	0.00016358		0.00401324	
Harrington Trust	WI			0.00133498	0.00042650	0.00011000	0.00005220	0.00123670	0.00086850	0.00017201	0.00023910	0.00067230	0.00023455	0.00016358	0.00045453	0.00596493	
NM&T Resources, LLC	WI				0.00012795			0.00550579	0.00386656	0.00005160	0.00007173	0.00161352	0.00007037	0.00004907		0.01135659	
Paula S. Campbell	WI				0.00002133			0.00091763	0.00064443	0.00000860	0.00001196	0.00026892	0.00001173	0.00000818		0.00189277	
Brian D. Kantor; Successor to Del Lane	WI							0.00069008	0.00063401			0.00023682	0.00000000	0.00000000		0.00156090	
Dr. Michael Norton, III	WI				0.00106625	0.00728475	0.00345704	0.00309175	0.00217125	0.00043003	0.00059775	0.00168075	0.00105548	0.00040894		0.02124399	
Troy or Sandra Oney	WI							0.00123670								0.00123670	
Leonard Schaen	WI							0.00207024	0.00063401			0.00118140				0.00388564	
Barbara A. Schatz, Trustee of the Schatz Management Trust UTA 9/1/92	WI				0.00085300			0.00247340	0.00173700	0.00034403	0.00047820	0.00134460	0.00046910	0.00032715		0.00802648	
Edwin G. Wallace	WI							0.00069008				0.00047364				0.00116371	
William Nickey	WI								0.00063401	0.00031306		0.00047364				0.00142070	
Gary Keith Tannahill, Barbara Carthell Mathis and Amarillo National Bank, Co-Trustees u/w/o Chester Francis Carthel, dec'd f/b/o Olga Eudora Tannahill Mathis	WI				0.00021325					0.00008601	0.00011955		0.00011728	0.00008179		0.00061787	
Gary Keith Tannahill, Barbara Carthell Mathis and Amarillo National Bank, Co-Trustees u/w/o Chester Francis Carthel, dec'd f/b/o Theodore H. Carthell	WI				0.00021325					0.00008601	0.00011955		0.00011728	0.00008179		0.00061787	
Don L. Lee	WI				0.00021325					0.00008601	0.00011955		0.00011728	0.00008179		0.00061787	
Richard E. O'Connell	WI				0.00085300					0.00034403	0.00047820		0.00046910	0.00032715		0.00247148	
Gwendolyn Manning Williams	WI				0.00127950			0.00371010	0.00260550	0.00051604	0.00071730	0.00201690	0.00070365	0.00049073		0.01203971	
Lessie Fisher	WI											0.00067230				0.00067230	
E & S, L.L.C.	WI			0.00266995	0.00068240	0.00021999	0.00010440	0.00307196	0.00215735	0.00010321	0.00014346	0.00121014	0.00014073	0.00009815	0.00090905	0.01151079	
Dean Kinsolving	WI			0.00266995	0.00042650	0.00021999	0.00010440	0.00247340	0.00173700	0.00017201	0.00023910	0.00134460	0.00023455	0.00016358	0.00090905	0.01069413	
Patrick J. Morello	WI							0.00061835	0.00043425			0.00033615				0.00138875	
David J. Mossler	WI				0.00042650			0.00123670	0.00086850	0.00017201	0.00023910	0.00067230	0.00023455	0.00016358		0.00401324	
John & Alice Sharp	WI							0.00123670				0.00067230				0.00190900	
Steve or Lola Bell	WI							0.00041232								0.00041232	
Nelson B. Alpers, Trustee of the Nelson B. Alpers Family Trust U/T/A 5/12/97	WI								0.00043425							0.00043425	
John V. Fox	WI												0.00011728			0.00011728	
Patricia K. Jennings	WI			0.00133498	0.00021325	0.00011000	0.00005220				0.00011955		0.00011728		0.00045453	0.00240177	
J. David Wrather, Jr.	WI										0.00125528					0.00125528	
Gene Shumate	WI					0.00021999	0.00010440									0.00032439	
Five States 1994-E Ltd.	WI				0.02132500											0.02132500	
Five States 1995-B Ltd.	WI				0.01066250											0.01066250	

EXHIBIT "D"

Attached to East Shugart (Delaware) Unit Operating Agreement

		S. Taylor 2	S. Taylor 3	Inca Fed	Conoco 1	Conoco 3	Mohawk	Geronimo 3	Geronimo 4	Geronimo 5	Geronimo 8	Geronimo 9	Geronimo 10*	Geronimo 12	Jade 1	Total Unit Participation
		Tract 1A	Tract 1B	Tract 2	Tract 3A	Tract 3B	Tract 4	Tract 5A	Tract 5B	Tract 5C	Tract 5D	Tract 5E	Tract 5F	Tract 5G	Tract 6	
OWNER		GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI	GWI
Five States 1995-D Ltd.	WI				0.01066250											0.01066250
J. E. Cieszinski	WI			0.00133498		0.00011000	0.00005220								0.00045453	0.00195170
Intoil, Inc.	WI														0.04545250	0.04545250
Nortex Corporation	WI	0.01896875	0.00414750													0.02311625
Harvey E. Yates Company	WI	0.03195186	0.00698624													0.03893810
Spiral, Inc.	WI	0.00422150	0.00092303													0.00514452
Explorers Petroleum Corp.	WI	0.00422150	0.00092303													0.00514452
HEYCO Employees Ltd.	WI	0.00144257	0.00031542													0.00175799
Yates Energy Corporation	WI	0.01020312	0.00223090													0.01243402
Jalapeno Corporation	WI	0.00486571	0.00106388													0.00592959
TOTAL WI		0.07587500	0.01659000	0.26699500	0.08530000	0.05866500	0.02784000	0.12367000	0.08685000	0.02293500	0.03188000	0.06723000	0.02345500	0.02181000	0.09090500	1.00000000

*NOTE: The working interests in Tract 5F (Geronimo Federal #10) are subject to the terms of that certain farmout agreement dated October 10, 1985, between 18-31, Inc. and Siete Oil & Gas Corp. The working interest shown herein are the Before Payout interests, in the event Tract 5F reaches payout as define in said farmout agreement the working interests in Tract 5F will be adjusted accordingly.

Kraftbilt 601-95 BOX 800
TULSA, OK 74101

COPAS—1995
Recommended by the Council
of Petroleum Accountants
Societies

COPAS

EXHIBIT " E "

Attached to and made a part of that certain Unit Operating AGreement dated _____, 199 relative to the East Shugart Delaware Unit among St. Mary Land & Exploration Company, as Operator, and Norman Barker, et al., as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. DEFINITIONS

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
"Joint Operations" shall mean activities required to handle specific operating conditions and problems for the exploration, development, production, protection, maintenance, abandonment, and restoration of the Joint Property.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and that are to be shared by the Parties.
"Operator" shall mean the Party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Material" shall mean personal property, equipment, supplies, or consumables acquired or held for use on the Joint Property.
"Controllable Material" shall mean Material that at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies (COPAS).
"Parties" shall mean legal entities signatory to the agreement, or their successors or assigns, to which this Accounting Procedure is attached.
"Affiliate" shall mean, with respect to the Operator, any party directly or indirectly controlling, controlled by, or under common control with the Operator.

2. STATEMENTS AND BILLINGS

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 preceding month. Such bills shall be accompanied by statements that identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be summarized by major Material classifications. Intangible drilling costs and audit exceptions shall be separately and clearly identified.

3. ADVANCES AND PAYMENTS BY NON-OPERATORS

A. If gross expenditures for the Joint Account are expected to exceed $60,000.00 the next succeeding month's operations, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the month's operations. Unless otherwise provided in the agreement, any billing for such advance shall be payable within 15 days after receipt of the advance request or by the first day of the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances received from the Non-Operators for such month.

B. Each Non-Operator shall pay its proportion of all bills within ~~15~~ 30 days of receipt date.* If payment is not made within such time, the unpaid balance shall bear interest compounded monthly using the U.S. Treasury three-month discount rate plus 3% in effect on the first day of the month for each month that the payment is delinquent or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. Interest shall begin accruing on the first day of the month in which the payment was due. *with the exception of advance billings, which are due within 15 days of receipt pursuant to the previous paragraph.

4. ADJUSTMENTS

A. Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; however, all bills and statements (including payout status statements) related to expenditures rendered to Non-Operators by the Operator during any calendar year shall conclusively be presumed to be true and correct after 24 months following the end of any such calendar year, unless within the said period a Non-Operator takes specific detailed written exception thereto and makes claim on the Operator for adjustment.

B. All adjustments initiated by the Operator except those described in (1) through (4) below are limited to the 24-month period following the end of the calendar year in which the original charge appeared or should have appeared on the Joint Account statement or payout status statement. Adjustments made beyond the 24-month period are limited to the following:
   (1) a physical inventory of Controllable Material as provided for in Section VII
   (2) an offsetting entry (whether in whole or in part), which is the direct result of a specific joint interest audit exception granted by the Operator relating to another property
   (3) a government/regulatory audit
   (4) working interest ownership adjustments

5. EXPENDITURE AUDITS

A. A Non-Operator, upon notice in writing to the Operator and other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account for any calendar year within the 24-month period following the end of such calendar year; however, conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of 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 lead audit company's audit report shall be issued within 180 days after completion of the audit field work; however, the 180-day time period shall not extend the 24-month requirement for taking specific detailed written exception as required in Paragraph 4.A. above. All claims shall be supported with sufficient documentation. Failure to issue the report within the prescribed time will preclude the Non-Operator from taking exception to any charge billed within the time period audited.

   A timely filed audit report or any timely submitted response thereto shall suspend the running of any applicable statute of limitations regarding claims made in the audit report. While any audit claim is being resolved, the applicable statute of limitations will be suspended; however, the failure to comply with the deadlines provided herein shall cause the statute to commence running again.

B. The Operator shall allow or deny all exceptions in writing to an audit report within 180 days after receipt of such report. Denied exceptions should be accompanied by a substantive response. Failure to respond to an exception with substantive information on denials within the time provided will result in the Operator paying interest on that exception, if ultimately granted, from the date of the audit report. The interest charged shall be calculated in the same manner as used in Section I, Paragraph 3.B.

C. The lead audit company shall reply to the Operator's response to an audit report within 90 days of receipt, and the Operator shall reply to the lead audit company's follow-up response within 90 days of receipt. If the lead audit company does not provide a substantive response to an exception within 90 days, that unresolved audit exception will be disallowed. If the Operator does not provide a substantive response to the lead auditor's follow-up response within 90 days, that unresolved audit exception will be allowed and credit given the Joint Account.

D. The lead audit company or Operator may call an audit resolution conference for the purpose of resolving audit issues/exceptions that are outstanding at least 18 months after the date of the audit report. The meeting will require one month's written notice to the Operator and all audit participants, be held at the Operator's office or other mutually agreed upon location, and require the attendance of representatives of the Operator and each audit participant responsible for the area(s) in which the exceptions are based and who have authority to resolve issues on behalf of their company. Any Party who fails to attend the resolution conference shall be bound by any resolution reached at the conference. The lead audit company will coordinate the response/position of the Non-Operators and continue to maintain its traditional role throughout the audit resolution process.

   Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information supporting its position. An audit resolution conference may be held as often as agreed to by the Parties. Issues unresolved at one conference can be discussed at subsequent conferences until each such issue is resolved.

6. AFFILIATES

Charges to the Joint Account for any services or Materials provided by an Affiliate shall not exceed average commercial rates for such services or Materials.

Unless otherwise indicated below, Affiliates performing services or providing Materials for Joint Operations shall provide the Operator with written agreement to make their records relating to the work performed for the Joint Account available for audit upon request by a Non-Operator under this Accounting Procedure. These records shall include, but not be limited to, invoices, field work tickets, equipment use records, employee time reports, and payroll summaries relating to the work performed for the Joint Account. All audits will be conducted pursuant to Section I, Paragraph 5.

☐ ~~The Parties agree that records relating to the work performed by Affiliates will not be made available for audit.~~

7. APPROVAL BY PARTIES

An affirmative vote of 2 or more Parties having a combined working interest of sixty-five percent (65%) shall be required for all items in this Accounting Procedure requiring approval by the Parties. This vote shall be taken in writing, in a meeting, or by telephone and results shall be binding on all Parties. All ~~votes~~ telephone votes or votes taken during a meeting must be confirmed in writing by each Party to the Operator within two business days. The Operator shall give notice to all Parties of the results.

8. AMENDMENT OF RATES

All rates provided in Fixed Rate (Section II, Paragraph 1), Facilities (Section IV, Paragraph 1), and/or Overhead (Section V, Paragraph 1.A.) shall be adjusted each year as of the first day of the production month of April following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease recommended by COPAS each year. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

The Operator may, at intervals of at least two years, elect to review the costs associated with any fixed rate and calculate a new rate. At intervals of at least four years, Non-Operators with 50% or more of the Non-Operators' working interest may challenge any rate subject to this provision provided such challenge is supported by factual data. If a rate is so challenged, the Operator shall calculate a new rate. The calculation of any new rate shall be in accordance with COPAS recommendations or other procedures approved by the Parties. The new rate shall then be proposed for approval by the Parties.

II. METHOD OF CHARGES TO JOINT ACCOUNT

The Operator shall charge the Joint Account for the costs of Joint Operations in accordance with only one of the following options. The method of charges to the Joint Account may be changed if approved by the Parties in accordance with Section I, Paragraph 7.

1. ☐ FIXED RATE

A fixed rate of $_____ per month per active well

Active wells are those wells that qualify for a producing overhead charge as specified in Section V, Paragraph 1.A.(3) of this procedure.

The fixed rate will compensate the Operator for all costs applicable to Joint Operations except for royalties, ad valorem taxes, and production/severance taxes paid by the Operator for the Joint Operations and except downhole well work, Controllable Material, and all projects that qualify for drilling, construction, and/or catastrophe overhead as specified in Section V of this procedure. These exception costs shall be charged as specified in Sections III, IV, and V of this procedure.

2. ☒ COSTS

Costs as specified in Sections III, IV, and V of this procedure

III. COSTS INCURRED ON THE JOINT PROPERTY

The Operator shall charge the Joint Account for the following items less discounts taken, which are incurred on the Joint Property for Joint Operations. Employees and contract personnel who spend substantially all their time in offices that are not Joint Property are not chargeable under this Section while working in those offices.

1. RENTALS AND ROYALTIES

Lease rentals and royalties paid by the Operator

2. LABOR

Salaries and wages of the Operator's employees directly employed on the Joint Property in the conduct of Joint Operations or while in transit to/from the Joint Property, provided such costs are excluded from the calculation of overhead rates in Section V

Other expenses associated with these employees to the extent the employees' salaries and wages are chargeable are also chargeable as follows:

A. The Operator's cost of holiday, vacation, sickness, and disability benefits and other customary allowances available to all employees, but specifically excluding severance compensation programs and all employee relocation expenses

Such costs 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. If percentage assessment is used, the rate shall be based on the Operator's recent cost experience.

B. Expenditures or contributions made pursuant to assessments imposed by governmental authority incurred by the Operator associated with salaries, wages, and benefits charged to the Joint Account

C. Reimbursable travel, meals, and lodging of these employees

D. Government-mandated training

This training charge shall include the wages, salaries, training course cost, and reimbursable travel, meals, and lodging incurred during the training session. The cost of the training course will be limited to prevailing commercial rates.

E. The Operator's cost of established plans for employees' benefits as described in COPAS Interpretation No. 11 determined by applying the employee benefits percent most recently published by COPAS to the chargeable salaries and wages

3. MATERIAL

Materials purchased or furnished by the Operator for use on the Joint Property as provided under Section VI

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

4. TRANSPORTATION

Transportation of company labor, contract personnel, and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest supply store where like Material is normally available, or railway receiving point nearest the Joint Property, unless agreed to by the Parties.

B. If surplus Material is moved to the Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest supply store where like Material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking costs is available when the actual charge is less than the amount most recently recommended by COPAS, excluding accessorial charges. Examples of accessorial charges are listed in Bulletin 21.

D. No charge shall be made for transportation costs associated with relocating employees, including the costs of moving their household goods and personal effects, unless agreed to by the Parties.

5. SERVICES

The cost of contract services, equipment, and utilities provided by sources other than the Operator

6. EQUIPMENT FURNISHED BY THE OPERATOR

A. Equipment located on the Joint Property owned by the Operator shall be charged to the Joint Account at the average prevailing commercial rate for such equipment. If an average commercial rate is used to bill the Joint Account, the Operator shall adequately document and support such rate and shall periodically review and update the rate.

B. In lieu of charges in Paragraph 6.A. above, or if a prevailing commercial rate is not available, equipment owned by the Operator will be charged to the Joint Account at the Operator's actual cost. Such costs may include all expenses that would be chargeable pursuant to this Section III if such equipment were jointly owned, depreciation using straight line depreciation method, interest on investment (less gross accumulated depreciation) not to exceed 9 % per annum, and an element of the estimated cost to dismantle and abandon the equipment. Charges for depreciation will no longer be allowable once the equipment has been fully depreciated. Actual cost shall not exceed the average prevailing commercial rate.

C. When applicable for Operator-owned or -leased motor vehicles, the Operator shall use rates published by the Petroleum Motor Transport Association or such other organization recognized by COPAS as the official source of such rates. When such rates are not available, the Operator shall comply with the provisions of Paragraph A or B above.

7. 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 those resulting from the Operator's gross negligence or willful misconduct

8. TAXES AND PERMITS

All taxes and permits of every kind and nature, including penalties and interest, 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

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 Parties will be made in accordance with the tax value generated by each Party's working interest.

9. INSURANCE

Net premiums paid for insurance required to be carried for the protection of the Parties

If Joint Operations are conducted at locations where the Operator acts as self-insurer, the Operator shall charge the Joint Account manual rates as regulated by the state in which the Joint Property is located, or in the case of offshore operations, the adjacent state as adjusted for offshore operations by the U.S. Longshoreman and Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

10. COMMUNICATIONS

Cost of acquiring, leasing, installing, operating, repairing, and maintaining communication systems

11. ECOLOGICAL AND ENVIRONMENTAL

Costs of surveys as well as pollution containment, actual control, and resulting responsibilities as required by applicable laws or resulting from statutory regulations

12. ABANDONMENT AND RECLAMATION

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

IV. COSTS INCURRED OFF THE JOINT PROPERTY

The Operator shall charge the Joint Account for the following items, which are incurred off the Joint Property for Joint Operations.

1. FACILITIES

A. PRODUCTION-HANDLING FACILITIES

(1) ALLOCATED

The Operator shall allocate charges to the Joint Account on an equitable and consistent basis for facilities that handle substances extracted from or injected into the real property subject to the agreement to which this Accounting Procedure is attached if such facilities are not listed in Paragraph (2) below or covered by a separate facility agreement. Allocable charges for such facilities that are leased or rented shall be at the Operator's cost. All allocable charges for such facilities owned by the Operator shall be operating costs as defined in Section III incurred on the facility site plus depreciation, interest on investment (less gross accumulated depreciation) not to exceed 9 % per annum, and estimated dismantling and abandonment costs. Charges for depreciation will no longer be allowable once the equipment has been fully depreciated. Such rates shall not exceed average commercial rates prevailing in the area of the Joint Property.

In lieu of charges in Paragraph 1.A.(1) above for Operator-owned facilities, the Operator may elect to charge average commercial rates prevailing in the immediate area of the Joint Property. If average commercial rates are used, the Operator shall adequately document and support the rates.

~~(2) FIXED RATE~~

The Operator shall charge the Joint Account monthly for the following facilities based on the rates and units provided:

FACILITY TYPE (function performed)	FIXED RATE	UNITS (Well, MCF, BOE, etc.)

~~B. OTHER FACILITIES~~

The Operator shall charge the Joint Account for use of other facilities not covered by Section IV, Paragraph 1.A. (such as shore bases, field offices, telecommunication equipment, and computer equipment) as listed below or if subsequently approved by the Parties. (Choose and complete only one methodology for each facility type.)

FACILITY TYPE (function performed)	AVG COM-MERCIAL RATES	FIXED RATE BASIS		ACTUAL COST ALLOCATION
		UNITS		
		RATE (Well, MCF, BOE, etc.)		BASIS
	☐	☐		☐
	☐	☐		☐
	☐	☐		☐
	☐	☐		☐
	☐	☐		☐

If the Actual Cost Allocation method is chosen, all allocable charges for such facilities owned by the Operator shall be operating costs as defined in Section III incurred on the facility site plus depreciation, interest on investment (less gross accumulated depreciation) not to exceed 9 % per annum, and estimated dismantling and abandonment costs. Charges for depreciation will no longer be allowable once the equipment has been fully depreciated. Such rates shall not exceed average commercial rates prevailing in the area of the Joint Property.

2. ECOLOGICAL AND ENVIRONMENTAL

Ecological and environmental costs are those that arise from compliance with governmental or regulatory requirements or prudent operations. These costs that are incurred off the Joint Property shall be

☒ allocated directly to the Joint Account
☐ included in the Overhead rates provided in Section V

3. LEGAL EXPENSE

The Operator may not charge for services of the Operator's legal staff or fees and expense of outside attorneys unless approved by the Parties in writing. Other expenses of handling, settling, or otherwise discharging litigation, claims, liens, title examinations, and curative work necessary to protect or recover the Joint Property shall be chargeable.

4. TRAINING

Training mandated by governmental authorities for those employees who would be chargeable to the Joint Account under Section III, Paragraph 2, of this Accounting Procedure if they were not attending the training shall be chargeable to the Joint Account. This training charge shall include costs as defined in Section III, Paragraph 2.D. but incurred off the Joint Property.

5. ENGINEERING, DESIGN, AND DRAFTING

Engineering, design, and drafting costs associated with major construction or catastrophes, as defined in Section V, Paragraph 2, of this Accounting Procedure, may be charged to the Joint Account only when the Operator elects to charge overhead for major construction or catastrophes per Section V, Paragraph 2.B. Such charges shall be determined in a manner consistent with those defined in Section III, Paragraphs 2 and 5.

V. OVERHEAD

The Operator shall be compensated for costs not chargeable in Section III (Costs Incurred On The Joint Property) or Section IV (Costs Incurred Off The Joint Property) that are incurred in connection with and in support of Joint Operations.

1. OVERHEAD—DRILLING AND PRODUCING OPERATIONS

As compensation for overhead in connection with drilling and producing operations, the Operator shall charge on either a

☒ Fixed Rate Basis, Paragraph 1.A., or
☐ ~~Percentage Basis, Paragraph 1.B.~~

A. OVERHEAD—FIXED RATE BASIS

(1) The Operator shall charge the Joint Account at the following rates per well month:
Drilling well rate per month $ 5000.00 (Prorated for less than a full month)
Producing well rate per month $ 522.00

(2) Application of overhead—drilling well rate shall be as follows:

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

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

(3) Application of overhead—producing well rate shall be as follows:

(a) An active well completion for any portion of the month shall qualify for a one-well charge for the entire month. An active completion is one that is
[1] produced,
[2] injected into for recovery or disposal, or
[3] used to obtain a water supply to support production operations.

(b) Each active completion in a multi-completed well in which production is not commingled downhole shall qualify for a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when the drilling well rate applies.

(d) All wells not meeting the criteria set forth in this Paragraph A (3) (a), (b), or (c) shall not qualify for a producing overhead charge.

~~B. OVERHEAD—PERCENTAGE BASIS~~

~~(1) The Operator shall charge the Joint Account at the following rates:~~

~~(a) Development rate _____ percent (___%) of the cost of development of the Joint Property exclusive of costs provided under Section IV, Paragraph 3 and all salvage credits.~~

~~(b) Operating rate _____ percent (___%) of the cost of operating the Joint Property exclusive of costs provided under Section III, Paragraph 1 and Section IV, Paragraph 3; all salvage credits; the value of injected substances purchased for secondary recovery; and all taxes and assessments that are levied, assessed, and paid upon the mineral interest in and to the Joint Property~~

~~(2) Application of overhead—percentage basis shall be as follows:~~

~~(a) Development shall include all costs in connection with~~
~~[1] drilling, redrilling, plugging back, or deepening of any or all wells~~
~~[2] workover operations requiring a period of five consecutive work days or more on any or all wells~~
~~[3] preliminary expenditures necessary in preparation for drilling~~
~~[4] expenditures incurred in abandoning when the well is not completed as a producer~~
~~[5] original construction or installation of fixed assets, expansion of fixed assets, and any other project clearly discernible as a fixed asset, except major construction as defined in Section V, Paragraph 2~~

~~(b) Operating shall include all other costs in connection with Joint Operations except that catastrophe costs shall be assessed overhead as provided in Section V, Paragraph 2.~~

2. OVERHEAD—MAJOR CONSTRUCTION AND CATASTROPHES -- TO BE NEGOTIATED

~~Major construction is defined as any project in excess of $_____ required for the construction and installation of fixed assets, the~~ expansion of fixed assets, or in the dismantling for abandonment of fixed assets as required for the development and operation of the Joint Property.

Catastrophe is defined as a calamitous event bringing damage, loss, or destruction resulting from a single occurrence requiring expenditures in excess of $_____ to restore the Joint Property to the equivalent condition that existed prior to the event causing the damage.

To compensate the Operator for overhead costs incurred in connection with major construction and catastrophes, the Operator shall either negotiate a rate prior to beginning the work or shall charge the Joint Account for overhead based on the following rates:

A. ~~If the Operator absorbs engineering, design, and drafting costs related to the project, the overhead assessment will be _____% of total project costs.~~

~~B. If the Operator charges engineering, design, and drafting costs related to the project directly to the Joint Account, the overhead assessment will be _____% of total project costs.~~

For each project, the Operator shall provide advance notice ~~to the Non-Operators~~ in writing if option A or B above will be used for calculating construction or catastrophe ~~overhead~~. For purposes of calculating overhead, ~~the cost~~ of drilling and workover wells shall be excluded and ~~catastrophe~~ expenditures to which these rates apply shall not be reduced by insurance recoveries. ~~Overhead assessed under the construction and catastrophe provisions shall be in lieu of all other overhead provisions.~~

VI. 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 normally provides all Material for use on the Joint Property but does not warrant the Material furnished. At the Operator's option, Material may be supplied by Non-Operators.

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. A direct purchase is determined to occur when an agreement is made between an Operator and a third party for the acquisition of Materials 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 vendor until usage, is considered a direct purchase. If Material is found to be defective or is returned to the vendor for any other reason, credit shall be passed to the Joint Account when adjustments have been received by the Operator from the manufacturer, distributor, or agent.

2. TRANSFERS

A transfer is determined to occur when the Operator furnishes Material from its storage facility or from another operated property. Additionally, the Operator has assumed liability for the storage costs and changes in value and has previously secured and held title to the transferred Material. Similarly, the removal of Material from a Joint Property to the Operator's facility or to another operated property is also considered a transfer. Material that is moved from the Joint Property to a temporary storage location pending disposition may remain charged to the Joint Account and is not considered a transfer.

A. PRICING

The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of transfer. Transfers of new Material will be priced using one of the following new Material bases:

(1) Published prices in effect on the date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS)

The HPMs and the associated date of published price to which they should be applied will be published by COPAS periodically.

(a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill (Houston for special end) carload base prices effective as of the date of movement, plus transportation cost as defined in Section VI, Paragraph 2.B.

(b) For other Material, the published price shall be the published list price in effect at the date of movement, as listed by a supply store nearest the Joint Property or point of manufacture, plus transportation costs as defined in Section VI, Paragraph 2.B.

(2) A price quotation that reflects a current realistic acquisition cost may be obtained from a supplier/manufacturer.

(3) Historical purchase price may be used, providing it reflects a current realistic acquisition cost on the date of movement. Sufficient price documents should be available to Non-Operators for purposes of verifying Material transfer valuation.

(4) As agreed to by the Parties

B. FREIGHT

Transportation costs should be added to the Material transfer price based on one of the following:

(1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the railway receiving point nearest the Joint Property based on the carload weight basis as recommended by COPAS in Bulletin 21 and current interpretations.

(2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the railway receiving point nearest the Joint Property. For transportation costs from other than eastern mills, the 30,000-pound Specialized Motor Carriers interstate truck rate shall be used. Transportation costs for macaroni tubing shall be calculated based on the Specialized Motor Carriers rate per weight of tubing transferred to the railway receiving point nearest the Joint Property.

(3) Transportation costs for special end tubular goods shall be calculated using the 30,000-pound Specialized Motor Carriers interstate truck rate from Houston, Texas, to the railway receiving point nearest the Joint Property.

(4) Transportation costs for Material other than that described in Section VI, Paragraphs 2.B(1) through (3), if applicable, shall be calculated from the supply store or point of manufacture, whichever is appropriate, to the railway receiving point nearest the Joint Property.

C. CONDITION

(1) Condition "A"—New and unused Material in sound and serviceable condition shall be charged at one hundred percent of the price as determined in Section VI, Paragraphs 2.A and B. Material transferred from the Joint Property that was not placed in service on the Joint Property shall be credited as charged without gain or loss. 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. All refurbishing costs necessary to correct handling or transportation damages and other related costs 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 property either through a direct purchase or transfer. Any preparation costs performed, including any internal or external coating and wrapping, will be credited on new Material provided these costs were not repeated for the receiving property.

(2) Condition "B"—Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced at the condition percentage most recently recommended by COPAS times the price determined by the pricing guidelines in Section VI, Paragraphs 2.A and B. Any cost of reconditioning to return the Material to Condition B will be absorbed by the divesting property.

If the Material was originally charged to the Joint Account as used Material and placed in service on the Joint Property, the Material will be credited at the condition percentage most recently recommended by COPAS times the price as determined in Section VI, Paragraphs 2.A and B.

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 at the condition percentage most recently recommended by COPAS times the price determined in Section VI, Paragraphs 2.A and B. The cost of reconditioning shall be charged to the receiving property provided Condition C value, plus cost of reconditioning, does not exceed Condition B value.

(4) Condition "D"—Other Material that is no longer suitable for its original purpose but usable for some other purpose is considered Condition D Material. Included under Condition "D" is also obsolete items or Material that does not meet original specifications but still has value and can be used in other services as a substitute for items with different specifications. Due to the condition or value of other used and obsolete items, it is not possible to price these items under Section VI, Paragraph 2.A. 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. In some instances, it may be necessary or desirable to have the Material specially priced as agreed to by the parties.

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

D. OTHER PRICING PROVISIONS

(1) Preparations Costs
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 reflective of the Operator's actual costs of the services. Documentation must be retained to support the cost of service. New coating and/or wrapping may be charged per Section VI, Paragraph 2.A.

(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 Bulletin 21.

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-Operator 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 Materials, the Operator should make good faith efforts to dispose of surplus within 12 months through buy/sale agreements, trade, sale to a third party, division in-kind, or other dispositions as agreed to by the Parties.

An 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 Operating Agreement to which this Accounting Procedure is attached without the prior approval of the Non-Operator. If the gross sale value exceeds the Operating Agreement expenditure limit, the disposal must be agreed to by the Parties.

The Operator may dispose of Condition D and E Material under procedures normally utilized by the Operator without prior approval.

4. SPECIAL PRICING PROVISIONS

A. PREMIUM PRICING

Whenever Material is not readily replaceable due to national emergencies, strikes, or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property provided notice in writing is furnished to Non-Operators of the proposed charge prior to use and to billing Non-Operators for such Material. During premium pricing periods, each Non-Operator shall have the right to furnish in-kind all or part of his share of such Material suitable for use and acceptable to the Operator by so electing and notifying the Operator within ten days after receiving notice from the Operator.

B. SHOP-MADE ITEMS

Shop-made items may be priced using the value of the Material used to construct the item plus labor costs. If the Material is from a scrap or junk account, the Material may be priced at either 25% of the current price as determined in Section VI, Paragraph 2.A, or scrap value, whichever is higher, plus estimated labor costs to fabricate the item.

C. MILL REJECTS

Mill rejects purchased as "limited service" casing or tubing shall be priced at 80% of K-55/J-55 price as determined in Section VI, Paragraphs 2.A and B. 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.

VII. INVENTORIES OF CONTROLLABLE MATERIAL

The Operator shall maintain records of Controllable Material charged to the Joint Account, as defined in the COPAS Material Classification Manual, with sufficient detail to perform the physical inventories requested unless directed otherwise by the Non-Operators.

Adjustments to the Joint Account by the Operator resulting from a physical inventory of jointly owned Controllable Material are limited to the six months following the taking of the inventory. Charges and credits for overages or shortages will be valued for the Joint Account based on Condition B prices in effect on the date of physical inventory and determined in accordance with Section VI, Paragraphs 2.A. and B, unless the inventorying Parties can prove another Material condition applies.

1. DIRECTED INVENTORIES

With an interval of not less than five years, physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators.

Expenses of directed inventories will be borne by the Joint Account and may include the following:

A. Audit per diem rate for each inventory person in line with the auditor rates determined, adjusted, and published each April by COPAS

The per diem should also be applied to a reasonable number of days for pre-inventory work and for report preparation. The amount of time required for this additional work may vary from inventory to inventory.

B. Actual travel including Operator-provided transportation and personal expenses for the inventory team

C. Reasonable charges for report typing and processing

The Operator is expected to exercise judgment in keeping expenses within reasonable limits. Unless otherwise agreed, costs associated with any post-report follow-up work in settling the inventory will be absorbed by the Non-Operator incurring such costs. Any anticipated disproportionate costs should be discussed and agreed upon prior to commencement of the inventory.

When directed inventories are performed, all Parties shall be governed by such inventory.

2. NON-DIRECTED INVENTORIES

A. OPERATOR INVENTORIES

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

B. NON-OPERATOR INVENTORIES

Any Non-Operator(s) may conduct a physical inventory at reasonable times with prior notification to the Operator. Such inventories shall be conducted at the sole cost and risk of the participating Non-Operator(s).

C. OTHER INVENTORIES

Other physical inventories may be taken whenever there is any sale or change of interest. When possible, the selling Party should notify all other owners 30 days prior to the anticipated closing date. When there is a change in Operator of the Joint Property, an inventory by the former and new Operator should be taken. The expenses of conducting such other inventories shall be charged to the Joint Account.

EXHIBIT "F"

ATTACHED TO AND MADE A PART
OF THE
UNIT OPERATING AGREEMENT

EAST SHUGART (DELAWARE) UNIT
EDDY AND LEA COUNTIES, NEW MEXICO

Insurance

At all times while operations are conducted hereunder, Operator shall carry insurance of the types and in the maximum amounts as follows:

a. Workers' Compensation Insurance in full compliance with all Statutory limits.

b. Employer's Liability Insurance in the limits of $500,000 per accident covering injury or death to any employee that may be outside the scope of the Workers' Compensation statute of the state in which the work is performed.

c. Commercial General Liability (CGL) Insurance in the limits of $5,000,000 for any one occurrence. If such CGL contains an aggregate limit, it shall apply separately to this project and shall cover liability arising from premises, operations, including completion operations, independent contractors, products-completed operations, property damage per occurrence for blowout, cratering, underground resources, equipment damage, pollution coverage for oil and gas operations, personal injury and broad form contractual liability with respect to any contract into which the operator may enter under the terms of this agreement.

d. Business Auto Policy covering owned, non-owned, and hired automotive equipment with limits of not less than $1,000,000 for any one accident combined single limit bodily injury and property damage liability.

All such insurance shall be carried by an acceptable insurer or insurers, shall be maintained in full force and effect during the terms of this agreement, and shall not be canceled, altered or amended without 30 days prior written notice having first been furnished the state of New Mexico and all non-operating parties. Operator agrees to have its insurance carrier furnish non-operating parties certificates of insurance evidencing such insurance coverages as required above upon request.

This insurance shall be primary to any insurance carried by non-operating working interest owners. Operator and non-operating working interest owners agree to mutually waive subrogation in favor of each other in all insurance carried by each party and/or to obtain such waiver from the insurance carrier if so required by the insurance contract.

Operator carries Control of Well Insurance covering expenses involved in controlling a blowout, the expense of redrilling, and certain other related costs. This insurance shall cover non-operating working interest owners and shall be billed to the joint account.

If any non-operating working interest owner elects not to be covered by Operator's Control of Well Insurance, he will notify Operator in writing within ten (10) days of execution of this agreement and furnish Operator a Certificate of Insurance for Well Control coverage in an amount not less than $3,000,000 per occurrence. Such insurance shall be maintained in force at all times prior to termination of this Operating Agreement.

Operator shall carry such other insurance as may be mutually agreed upon by all parties.

A.A.P.L. FORM 610-E - GAS BALANCING AGREEMENT - 1992

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

EXHIBIT 'G'
GAS BALANCING AGREEMENT ("AGREEMENT")
ATTACHED TO AND MADE PART OF THAT CERTAIN
OPERATING AGREEMENT DATED _____
BY AND BETWEEN St. Mary Land & Exploration Company, as Operator,
AND _____ ("OPERATING AGREEMENT")
RELATING TO THE East Shugart Delaware Unit AREA,
Eddy and Lea ~~COUNTY/PARISH~~, STATE OF NEW MEXICO
COUNTIES

1. DEFINITIONS

The following definitions shall apply to this Agreement:

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

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

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

☐ ~~all of the acreage and depths subject to the Operating Agreement~~.

☐ _____

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

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

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

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

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

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

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

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

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

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

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

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

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

1.16 ☒ (Optional) "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January and February in the succeeding calendar year.

2. BALANCING AREA

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

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

3. RIGHT OF PARTIES TO TAKE GAS

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

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

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

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

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

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

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

4. IN-KIND BALANCING

4.1 Effective the first day of any calender month following at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying fifty percent (50 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than fifty percent (50 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

4.2 ☒ (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the four (4) months immediately preceding the Winter Period.

4.2 ~~[illegible]~~

4.3 ☒ (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ~~forty-five (45)~~ ninety (90) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

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

6. PAYMENTS ON PRODUCTION

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

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

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

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

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

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

7. CASH SETTLEMENTS

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

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

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

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

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

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

7.4 ☒ [illegible]

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

7.5.1 ☒ [illegible]

7.5.2 ☒ [illegible]

7.5.2 ☒ [illegible]

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

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

7.7 Interest compounded at the rate of ten percent (10 %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest.

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

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

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

8. TESTING

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

9. OPERATING COSTS

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

10. LIQUIDS

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

11. AUDIT RIGHTS

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

12. MISCELLANEOUS

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

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

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

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

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

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

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

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

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

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

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

13.2 ☒ **(Optional - Cash Settlement Upon Assignment)** Notwithstanding anything in this Agreement (including but not limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least thirty (30) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within fifteen (15) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.

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

~~14. OTHER PROVISIONS~~

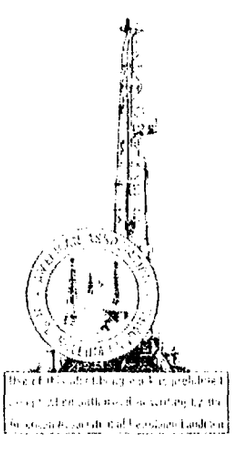


EXHIBIT "H"

Attached to and made a part of that certain Unit Operating Agreement dated _____, 1998, by and between ST. MARY LAND & EXPLORATION COMPANY, as Contractor, and NORMAN BARKER, et al., as Non-Contractors.

Unless exempted by Federal law, regulation or order, the following terms and conditions shall apply during the performance of this contract:

EQUAL OPPORTUNITY CLAUSE

A. During the performance of this contract, the Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places available to employees and applicants for employment notices to be provided by the contracting officer setting forth the provisions of this non-discrimination clause.

2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts, by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

6. In the event of the Contractor's non-compliance with the non-discrimination clauses of this agreement or with any of such rules, regulations, or orders, this Agreement may be canceled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

B. If required to do so by Federal law, regulation, order, Contractor agrees that he shall:

1. File with the Office of Federal Contract Compliance or agency designated by it, a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after signing of this Agreement (unless such a report has been filed in the last 12 months), and continue to file such reports annually, on or before March 31st.

2. Develop and maintain a written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order No. 11246, as amended.

CERTIFICATE OF NONSEGREGTED FACILITIES

The Contractor certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not and will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. The Contractor understands that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, creed, or national origin, because of habit, location custom, or otherwise. The Contractor understands and agrees that maintaining or providing segregated facilities for his employees or permitting his employees to perform their services at any locations, under his control, where segregated facilities are maintained is a violation of the Equal Opportunity Clause required by Executive Order No. 11246 of September 24, 1965, and the regulations of the Secretary of Labor set out in 41 CFR Chapter 60. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files, and that it forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 F.R. 7439, May 19, 1967), and as required by the regulations of the Secretary of Labor set out in 41 CFR Chapter 60, and as they may be amended, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually).

EXHIBIT "I"

MODEL FORM RECORDING SUPPLEMENT TO OPERATING AGREEMENT AND FINANCING STATEMENT

THIS AGREEMENT, entered into by and between St. Mary Land & Exploration Company, hereinafter referred to as "Operator", and the signatory party or parties other than Operator, hereinafter referred to individually as "Non-Operator", and collectively as "Non-Operators".

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated _____ (herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands, Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.

2. The parties do hereby agree that:

A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do hereby commit such Leases and Interests to the performance thereof.

B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and provisions of the Operating Agreement, as supplemented by this agreement.

C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties hereto, as provided in the Operating Agreement.

D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on Exhibit "A", all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment of interests covered hereby.

E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the Contract Area as provided in the Operating Agreement.

F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter created, assignments of production given as security for the payment of money and those overriding royalties, production payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and (iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the times and manner provided by the Operating Agreement.

G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with the leases or interests included within the lease Contract Area.

H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or loss of title, each party's right to propose operations, obligations with respect to participation in operations on the Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial obligations shall be as provided in the Operating Agreement.

J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.

K. All other matters with respect to exploration and development of the Contract Area and the ownership and transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of the Operating Agreement.

3. The parties hereby grant reciprocal liens and security interests as follows:

A. 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 Contract 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 and the Operating Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under this agreement and the Operating Agreement. 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 and the Operating 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 the sale of production at the wellhead),

contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

B. 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 and the Operating 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 and the Operating 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 the Operating Agreement and this instrument as to all obligations attributable to such interest under this agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.

C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which the Contract 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, interest 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, 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.

D. If any party fails to pay its share of expense within one hundred-twenty (120) 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 in this paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available under the Operating Agreement or otherwise.

E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this agreement or the Operating 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 appraisement of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling 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 or under the Operating Agreement, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

F. The lien and security interest granted by this paragraph 3 supplements identical rights granted under the Operating Agreement.

G. 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 Contract Area is situated in order to secure the payment to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials supplied by Operator.

H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation statement as necessary under the Uniform Commercial Code, or other state laws.

4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial obligations.

5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden the interest transferred to secure payment of any such obligations.

6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.

7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.

8. Other provisions.

IN WITNESS WHEREOF, this agreement shall be effective as of the _____ day of _____, 19 _____.

ATTEST OR WITNESS:

_____

_____

OPERATOR

_____

_____

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS:

_____

_____

NON-OPERATORS

_____

_____

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS:

_____

_____

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS:

_____

_____

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ATTEST OR WITNESS:

_____

_____

By: _____

Type or Print Name

Title: _____

Date: _____

Address: _____

ACKNOWLEDGMENTS

NOTE:

The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual Acknowledgment

STATE OF _____ §

§ ss.

COUNTY OF _____ §

This instrument was acknowledged before me on _____,

by _____.

(Seal, if any) _____

Title (and Rank) _____

My Commission Expires: _____

Acknowledgment in Representative Capacity

STATE OF _____ §

§ ss.

COUNTY OF _____ §

This instrument was acknowledged before me on _____,

by _____ as _____ of

_____.

(Seal, if any) _____

Title (and Rank) _____

My Commission Expires: _____