

Township 20 North, Range 3 West, N.M.P.M.

Section 6: All

Township 20 North, Range 4 West, N.M.P.M.

Section 1: All

Township 21 North, Range 2 West, N.M.P.M.

Sections 7 through 10: All

Sections 15 through 18: All

Sections 19 through 22: All

Sections 27 through 30: All

Township 21 North, Range 3 West, N.M.P.M.

Sections 12 through 16: All

Sections 20 through 34: All

Township 21 North, Range 4 West, N.M.P.M.

Section 25: All

Section 36: All

NEW MEXICO  
OIL CONSERVATION DIVISION

Gary Williams EXHIBIT 2  
CASE NO. 10714/10715



# United States Department of the Interior

BUREAU OF LAND MANAGEMENT  
ALBUQUERQUE DISTRICT OFFICE  
435 MONTANO N.E.  
ALBUQUERQUE, NEW MEXICO 87107



3180 (015)  
Ceja Pelon Ut

APR 20 1993

Unitsource Incorporated  
1050 - 17th Street, Suite 705  
Denver, Colorado 80265

Re: Designation of the Ceja Pelon Unit Area and the Determination of Test Well Depth

Mr. Conner:

Your application of March 30, 1993, filed with the Albuquerque District BLM Office, requests the designation of 24,335.43 acres, more or less, in Sandoval County, New Mexico, as logically subject to exploration and development under unitization provisions of the Mineral Leasing Act, as amended.

Pursuant to unit plan regulations 43 CFR Part 3180, the land requested, as outlined on your map marked "Figure 1, Gallup "B" Structure Map" is hereby designated as a logical unit area.

The unit agreement to be submitted for the area designated should provide for a horizontal well to test the Semilla Sandstone Member of the Mancos Shale or to a depth of 5250 vertical feet. Your proposed use of the Form of Agreement for Unproven Areas at 43 CFR 3186.1 modified as shown in your application, will be accepted.

If conditions are such that further modification of said standard form is deemed necessary, two copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

In the absence of any other type land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified only as described above, will be approved if submitted in a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted that, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

NEW MEXICO  
OIL CONSERVATION DIVISION


EXHIBIT 3  
CASE NO. 10714/10715

Please include the latest land status of all acreage when the executed agreement is submitted for final approval. The format of the sample exhibits attached to the model unit agreement (43 CFR 3186.1) should be followed closely in the preparation of Exhibits A and B. A minimum of 3 copies of the executed agreement should be submitted with your request for final approval.

Inasmuch as this unit area contains State of New Mexico lands, we are sending a copy of this letter to the State Land Commissioner and we hereby request that you contact the State promptly in connection with this letter before soliciting joinders.

Please contact Jane Clancy at (505) 761-8760 if you have any questions regarding this action.

Sincerely,

  
for Michael R. Ford  
District Manager

cc: Commissioner of Public Land

35692

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 1st day of February, 1989, by and between  
ELOISA M. GUTIERREZ, a widow

whose post office address is Box 31, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and  
GARY-WILLIAMS OIL PRODUCER, INC. whose post office address is 115 Inverness Drive East, Englewood, Colo.  
80112-5116

WITNESSETH, That the Lessor, for and in consideration of ten and more DOLLARS  
cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let,  
and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose  
of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of  
way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land

situated in the County of Sandoval, State of New Mexico, described as follows, to-wit:

Township 21 North, Range 3 West  
Section 33: The South fifty-three and one-third (53 1/3) acres of the  
NW 1/4 being the same lands as described in that certain  
Warranty Deed dated September 4, 1967, recorded in Vol.  
DR 24, Page 484, in the records of the County Clerk of  
Sandoval County, New Mexico

and containing 53.333 acres, more or less. five (5) 5-4-89

1. It is agreed that this lease shall remain in force for a term of ~~ten~~ years from ~~5-4-89~~ and as long thereafter as oil or gas of whatsoever  
nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration  
of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or  
re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage  
pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandon-  
ment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled there-  
with, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working  
operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as  
a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the  
leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise  
provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender  
this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved  
of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:  
1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of  
all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while  
the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market  
rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty  
of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per  
net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days  
from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is  
made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including  
any shut-in gas royalty) herein provided for shall be paid the said Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of  
Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe lines below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or other-  
wise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other  
information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of  
notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said  
land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division.  
If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as  
to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral  
estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either,  
when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or  
leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming  
or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall  
describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been com-  
menced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be  
treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein  
specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to  
this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit  
bears to the total number of surface acres in such unit. In addition to the foregoing, lessee shall have the right to unitize, pool, or combine all or any part of  
the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of  
development and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions  
of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied,  
shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the  
life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit  
plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allo-  
cated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from  
the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based  
upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee  
and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease  
shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure  
is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem  
for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the  
rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower  
and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made,  
as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties  
who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the  
provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

NEW MEXICO  
OIL CONSERVATION DIVISION  
Eloisa M. Gutierrez  
Eloisa M. Gutierrez

EXHIBIT A

CASE NO. 10714  
752



STATE OF NEW MEXICO  
COUNTY OF SANDOVAL

SS.

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this 27th day of MARCH, A. D., 1988, before me, a Notary Public, in and for said County and State, personally appeared Eloisa M. Gutierrez

to me known to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal, the day and year first above written.

My commission expires Notary Public

STATE OF  
COUNTY OF

SS.

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this 8-13-90 day of, A. D., 19, before me, a Notary Public, in and for said County and State, personally appeared

to me known to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that executed the same as free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal, the day and year first above written.

My commission expires Notary Public

STATE OF  
COUNTY OF

SS.

ACKNOWLEDGMENT, Montana or Colorado

I, a Notary Public, in and for said County and State, do hereby certify that

personally known to me to be the person whose name subscribed to the within instrument, appeared before me this day in person and acknowledged that signed, sealed and delivered the said instrument of writing as free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal this day of A. D., 19.

My commission expires Notary Public

No

OIL AND GAS LEASE

FROM

TO

Dated 19

Lot Block Addition

Section Township Range

County

No. of Acres Term

STATE OF New Mexico  
COUNTY OF Sandoval  
SS.

This instrument was filed for record on the 24

day of April, 1989

at 11:41 o'clock A. M., and duly recorded in

Book 300 Page 752-753 of the

records of this office.

Kelly Padilla  
County Clerk—Register of Deeds

By 11 Deputy

When Recorded Return to

GARY-WILLIAMS OIL PRODUCER  
115 Inverness Drive East  
Englewood, Colorado 80112  
ATTN: Kay White

STATE OF  
COUNTY OF

SS.

ACKNOWLEDGMENT, CORPORATION

Before me, the undersigned, a Notary Public, in and for said County and State, on this day of 19, personally appeared

to me known

to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as its

and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires Notary Public

P. O.

# OIL AND GAS LEASE

AGREEMENT, Made and entered into the 26th day of April, 19 93, by and between  
Reynaldo Lovato and Cypria A. Lovato, husband and wife

whose post office address is Box 14, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and  
The Gary-Williams Company whose post office address is 370 17th Street, Suite 530Q, Denver, CO 80202, hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and no/100 DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Sandoval

State of New Mexico, described as follows, to-wit:

See Exhibit A attached hereto and made a part hereof

and containing 213.66 acres, more or less.

five (5)

1. It is agreed that this lease shall remain in force for a term of ten years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith out Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or re-working operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

NEW MEXICO

Reynaldo Lovato

OIL CONSERVATION DIVISION

Cypria A. Lovato

SS#

SS#

EXHIBIT

13

CASE NO.

10714

Exhibit A

Attached to and made a part of that certain Oil and Gas Lease dated April 26, 1993 by and between Reynaldo Lovato and Cypria A. Lovato, husband and wife as Lessor and The Gary-Williams Company as Lessee.

Legal Description:

Parcel No. 1 A tract of land containing 106.33 acres, including the mineral rights, in the Southwest Quarter (SW/4) of Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico

Bounded: On the North by land of Fabian Gutierrez;  
On the East by land of Section 33: SE/4;  
On the South by land of Gavina M. Aragon;  
On the West by land of Section 32;

and more particularly described as follows:

Tie Point: Beginning at Corner #1 of this parcel, being the Southwest Corner of said Section 33, Twp. 21 North, Rge. 3 West, N.M.P.M., thence running North  $0^{\circ} 08'$  E., 1754.4 feet distant to NW Corner #2;

Sec. Line: Thence running North  $89^{\circ} 59'$  E., 2640 feet distant to NE Corner #3; Thence running South  $0^{\circ} 08'$  W., 1754.4 feet distant to SE Corner #4; Thence running W. 2640 feet distant to SW Corner #1, the beginning corner, and comprising an area of 106.33 acres, more or less.

This being the same land as described in that certain Warranty Deed dated July 2, 1963 and filed January 18, 1973, recorded in DR 43, pg. 207.

Parcel No. 2 A tract of land containing 53.33 acres, (fifty three and one-third acres) in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico, Patent Number 952109 given to Francisco Montoya,

Bounded: On the North by Government Land;  
On the South by land belonging to Guadalupe Montoya;  
On the East by Government Land (BLM);  
On the West by Government Land (BLM).

This being the same land as described in that certain Warranty Deed dated September 4, 1967, filed January 19, 1968 and recorded in Vol. DR 24, pg. 484, Sandoval County, New Mexico.

Parcel No. 3 A tract of land containing 54.0 acres in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico in Patent No. 952109.

Bounded: On the North by land of Louis Montoya;  
On the East by BLM Land;  
On the South by land by R. Lovato;  
On the West by BLM Land.

This being the same as described in Warranty Deed dated August 16, 1965, between Gavina M. Aragon, et al, Grantors, and Reynaldo Lovato, Grantee, and filed May 27, 1968 being duly recorded in Vol. DR 25, pg. 564, Sandoval County, New Mexico.

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 1st day of February, 1989, by and between

ELOISA M. GUTIERREZ, a widow

whose post office address is Box 31, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and  
GARY-WILLIAMS OIL PRODUCER, INC. whose post office address is 115 Inverness Drive East, Englewood, Colo. 80112-5116

WITNESSETH, That the Lessor, for and in consideration of ten and more DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land

situated in the County of Sandoval, State of New Mexico, described as follows, to-wit:

Township 21 North, Range 3 West

Section 33: The South fifty-three and one-third (53 1/3) acres of the NW 1/4 being the same lands as described in that certain Warranty Deed dated September 4, 1967, recorded in Vol. DR 24, Page 484, in the records of the County Clerk of Sandoval County, New Mexico

and containing 53.333 acres, more or less, five (5) 5-4-89

1. It is agreed that this lease shall remain in force for a term of ~~X~~ years from ~~XXXX~~ and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the said Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe lines below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan of agreement and, in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

NEW MEXICO

OIL CONSERVATION DIVISION

EXHIBIT

CASE NO.

10714

Eloisa M. Gutierrez  
Eloisa M. Gutierrez

STATE OF NEW MEXICO

COUNTY OF SANDOVAL

SS

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this 27th day of MARCH, A. D., 1989, before me, a Notary Public, in and for said County and State, personally appeared Eloisa M. Gutierrez

to me known to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal, the day and year first above written.

My commission expires Notary Public

STATE OF

COUNTY OF

SS

ACKNOWLEDGMENT, Applicable where lands are in Oklahoma, Kansas, Nebraska, South Dakota, North Dakota and/or New Mexico

BE IT REMEMBERED, That on this 8-13-90 day of, A. D., 19, before me, a Notary Public, in and for said County and State, personally appeared

to me known to be the identical person described in and who executed the within and foregoing instrument and acknowledged to me that executed the same as free and voluntary act and deed for the uses and purposes therein set forth.

IN WITNESS WHEREOF, I have hereunto set my official signature and affixed my notarial seal, the day and year first above written.

My commission expires Notary Public

STATE OF

COUNTY OF

SS

ACKNOWLEDGMENT, Montana or Colorado

I, a Notary Public, in and for said County and State, do hereby certify that

personally known to me to be the person whose name subscribed to the within instrument, appeared before me this day in person and acknowledged that signed, sealed and delivered the said instrument of writing as free and voluntary act and deed for the uses and purposes therein set forth.

WITNESS my hand and official seal this day of A. D., 19.

My commission expires Notary Public

No

OIL AND GAS LEASE

FROM

TO

Dated

19

Lot

Block

Addition

Section

Township

Range

County

No. of Acres

Term

STATE OF New Mexico

COUNTY OF Sandoval

This instrument was filed for record on the 24th day of April, 1989

at 11:24 o'clock A. M., and duly recorded in

Book 1100, Page 752-753 of the

records of this office.

Kelly Patricia  
County Clerk-Register of Deeds

By

When Recorded

Deputy

Return to

GARY WILLIAMS OIL PRODUCER

115 Inverness Drive East

Englewood, Colorado 80112

ATTN: Kay White

STATE OF

COUNTY OF

SS

ACKNOWLEDGMENT, CORPORATION

Before me, the undersigned, a Notary Public, in and for said County and State, on this day of 19, personally appeared

to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as its

and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

My commission expires Notary Public

P. O.

OIL AND GAS LEASE

AGREEMENT, Made and entered into the 26th day of April, 1993, by and between Reynaldo Lovato and Cypria A. Lovato, husband and wife

whose post office address is Box 14, LaJara, New Mexico 87027, hereinafter called Lessor (whether one or more) and The Gary-Williams Company whose post office address is 370 17th Street, Suite 5300 Denver, CO 80202, hereinafter called Lessee:

WITNESSETH, That the Lessor, for and in consideration of Ten and no/100 DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all that certain tract of land situated in the County of Sandoval

State of New Mexico, described as follows, to-wit:

See Exhibit A attached hereto and made a part hereof

and containing 213.66 acres, more or less. five (5)

1. It is agreed that this lease shall remain in force for a term of ten years from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or re-working operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or re-working operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, free of cost, in the pipe line to which Lessee may connect wells on said land, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises.

2nd. To pay Lessor one-eighth (1/8) of the gross proceeds each year, payable quarterly, for the gas from each well where gas only is found, while the same is being used off the premises, and if used in the manufacture of gasoline a royalty of one-eighth (1/8), payable monthly at the prevailing market rate for gas.

3rd. To pay Lessor for gas produced from any oil well and used off the premises or in the manufacture of gasoline or any other product a royalty of one-eighth (1/8) of the proceeds, at the mouth of the well, payable monthly at the prevailing market rate.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners One Dollar per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. The rights of Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

12. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein and as to any one or more of the formations hereunder, to pool or unitize the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or re-working operations on a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations on a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

13. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation.

14. Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein.

15. Should any one or more of the parties hereinabove named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

Reynaldo Lovato NEW MEXICO Cypria A. Lovato

OIL CONSERVATION DIVISION

SS#

SS#

EXHIBIT

B

CASE NO.

10714

Exhibit A

Attached to and made a part of that certain Oil and Gas Lease dated April 26, 1993 by and between Reynaldo Lovato and Cypria A. Lovato, husband and wife as Lessor and The Gary-Williams Company as Lessee.

Legal Description:

**Parcel No. 1** A tract of land containing 106.33 acres, including the mineral rights, in the Southwest Quarter (SW/4) of Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico

Bounded: On the North by land of Fabian Gutierrez;  
On the East by land of Section 33: SE/4;  
On the South by land of Gavina M. Aragon;  
On the West by land of Section 32;

and more particularly described as follows:

Tie Point: Beginning at Corner #1 of this parcel, being the Southwest Corner of said Section 33, Twp. 21 North, Rge. 3 West, N.M.P.M., thence running North  $0^{\circ} 08'$  E., 1754.4 feet distant to NW Corner #2;

Sec. Line: Thence running North  $89^{\circ} 59'$  E., 2640 feet distant to NE Corner #3; Thence running South  $0^{\circ} 08'$  W., 1754.4 feet distant to SE Corner #4; Thence running W. 2640 feet distant to SW Corner #1, the beginning corner, and comprising an area of 106.33 acres, more or less.

This being the same land as described in that certain Warranty Deed dated July 2, 1963 and filed January 18, 1973, recorded in DR 43, pg. 207.

**Parcel No. 2** A tract of land containing 53.33 acres, (fifty three and one-third acres) in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico, Patent Number 952109 given to Francisco Montoya,

Bounded: On the North by Government Land;  
On the South by land belonging to Guadalupe Montoya;  
On the East by Government Land (BLM);  
On the West by Government Land (BLM).

This being the same land as described in that certain Warranty Deed dated September 4, 1967, filed January 19, 1968 and recorded in Vol. DR 24, pg. 484, Sandoval County, New Mexico.

**Parcel No. 3** A tract of land containing 54.0 acres in Section 33, Township 21 North, Range 3 West, N.M.P.M., Sandoval County, New Mexico in Patent No. 952109.

Bounded: On the North by land of Louis Montoya;  
On the East by BLM Land;  
On the South by land by R. Lovato;  
On the West by BLM Land.

This being the same as described in Warranty Deed dated August 16, 1965, between Gavina M. Aragon, et al, Grantors, and Reynaldo Lovato, Grantee, and filed May 27, 1968 being duly recorded in Vol. DR 25, pg. 564, Sandoval County, New Mexico.

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

CEJA PELON UNIT AREA

SANDOVAL COUNTY, NEW MEXICO

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

NEW MEXICO  
OIL CONSERVATION DIVISION

EXHIBIT 4

CASE NO. 10714/10715



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

CEJA PELON UNIT AREA

COUNTY OF SANDOVAL

STATE OF NEW MEXICO

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

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

CEJA PELON UNIT AREA

COUNTY OF SANDOVAL

STATE OF NEW MEXICO

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

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 19 93, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the unit area subject to this agreement; and

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 19-10-45, 46, 47 NM Statutes 1978 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, NM Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

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

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

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

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

2. **UNIT AREA.** The following described land is hereby designated and recognized as constituting the unit area:

Township 20 North, Range 3 West, N.M.P.M.  
Section 6  
Township 20 North, Range 4 West, N.M.P.M.  
Section 1  
Township 21 North, Range 2 West, N.M.P.M.  
Sections 7-10, 15-22, 27-30  
Township 21 North, Range 3 West, N.M.P.M.  
Sections 12-16, 20-34  
Township 21 North, Range 4 West, N.M.P.M.  
Sections 25 and 36

Containing 24,975.43 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized officer, hereinafter referred to as "AO", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office, and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

The above-described unit area shall, when practicable, be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, or the Land Commissioner (after preliminary concurrence by the AO and the Land Commissioner) shall prepare a Notice of Proposed Expansion or Contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office, the Land Commissioner and the Division, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interest are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO, the Land Commissioner and the Division, evidence of mailing of the Notice of Expansion or Contraction and a copy of any objections thereto which have been filed with Unit Operator together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, the Land Commissioner and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, all legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than ninety (90) days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within ten (10) years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all non-participating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this Subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed two (2) years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the AO and the Land Commissioner provided such extension application is submitted not later than sixty (60) days prior to the expiration of said 10-year period.

3. **UNITIZED LAND AND UNITIZED SUBSTANCES.** All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. THE GARY-WILLIAMS COMPANY hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and the Land Commissioner and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal lands and the Division as to State and fee lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than thirty (30) days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO and the Land Commissioner.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the newly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator as negotiated by the working interest owners, the owners of the working interests according to their respective acreage interest in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

- (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and
- (b) the selection shall have been approved by the AO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and the Land Commissioner, at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing,

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

9. **DRILLING TO DISCOVERY.** Within six (6) months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, if on Federal land, or by the Land Commissioner, if on State land, and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the upper 25' of the Semilla Formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land, or the Land Commissioner if on State land, or the Division if located on Fee land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 5,300 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO and Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed, prior to the establishment of a participating area, including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after fifteen (15) days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section.

10. **PLAN OF FURTHER DEVELOPMENT AND OPERATION.** Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner and Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO, the Land Commissioner and Division may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

- (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- (b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and the Land Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner and Division, shall be drilled except in accordance with an approved plan of development and operation.

11. **PARTICIPATION AFTER DISCOVERY.** Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division, effective as of the date of completion of such well or the effective date of

this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner, and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participation area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating areas is based are abandoned.

It is the intent of this section that a participating area shall represent the area productive of unitized substances known or reasonably proved to be productive in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO, the Land Commissioner and Division, as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States and the State of New Mexico, be impounded in a manner mutually acceptable to the owners of committed working interests and the AO and the Land Commissioner. Royalties due to the United States and the State of New Mexico shall be determined by the AO for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the AO and the Land Commissioner until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, the Land Commissioner and the Division, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land of which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

**12. ALLOCATION OF PRODUCTION.** All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations which has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased Federal land, if any, included in the participating area established for such production. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land and unleased Federal land, if any, included in said participating area. Each tract of unitized land in said participating area shall have allocated to it, in addition, such percentage of the production attributable to unleased Federal land within the participating area as the number of acres of such unitized tract included in said participating area bears to the total acres of unitized land in said participating area, upon payment of the compensatory royalty specified in section 17 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensation royalty obligations under section 17, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed to by the affected parties. It is acknowledged that, once the compensatory royalty is paid, no other Federal royalty shall be due from any lessee benefiting from a share in the production allocated to the unleased lands. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

**13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS.** Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the AO and the Land Commissioner, and the Division at such party's sole risk, costs, and expense, drill a well to test any formation provided the well is outside any participating area established for that formation, unless within ninety (90) days of receipt of notice from said party of his intention to drill the

well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled under this section by a working interest owner results in production of unitized substances in paying quantities such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled under this section by a working interest owner that obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same, subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

**14. ROYALTY SETTLEMENT.** The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefore under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan of development and operation approved by the AO and the Land Commissioner and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Land Commissioner and the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of State lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

**15. RENTAL SETTLEMENT.** Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases.

With respect to any lease on non-federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

**16. CONSERVATION.** Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

**17. DRAINAGE.**

(a) The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.



(b) In order to compensate the United States for drainage from any unleased Federal lands sharing a common pool or deposit with other land in the participating area, the value of 12 1/2 percent of the production that would be allocated to such Federal lands under section 12 of this agreement, if such lands were leased committed, and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Working interest owners party to this agreement shall be responsible for such payment of compensatory royalty on the volume of production allocated to their unitized tracts pursuant to section 12. The value of such production subject to the payment of compensatory royalty shall be determined pursuant to 30 CFR part 206, except that no additional royalty shall be due from any lessee benefiting from a share in the production attributable to the unleased Federal lands. Payment of compensatory royalties on the production reallocated from unleased Federal land to committed Federal tracts within the participating area shall fulfill the Federal royalty obligation for such production, and said production shall be subject to no further Federal royalty assessment under section 14. Specifically, it is acknowledged that, once the compensatory royalty is paid, no other Federal royalty shall be due from any lessee benefiting from a share in the production allocated to the unleased Federal lands. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area that includes unleased Federal lands receive a production allocation, and shall be due and payable monthly by the last day of the calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first.

**18. LEASES AND CONTRACTS CONFORMED AND EXTENDED.** The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to State leases, each by his approval hereof, or by the approval hereof by his duly authorized representative, shall and does hereby establish, alter, change, or revoke the drilling, producing, rental minimum royalty, and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO and the Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 1, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (j)): "Any (Federal) lease heretofore or hereafter committed to any such (Unit) plan embracing lands that are in part within and in part outside the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however that any such lease as to non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made the subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as the effective date hereof; provided, however, that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the fixed term of such lease; or if, at the expiration of the fixed term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or lease subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the AO and the Land Commissioner or their duly authorized representative and shall automatically terminate five (5) years from said effective date unless:

(a) Upon application by the Unit Operator such date of expiration is extended by the AO and the Land Commissioner; or

(b) it is reasonably determined prior to the expiration of the fixed terms or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO and the Land Commissioner; or

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and the Land Commissioner. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance with Section 9.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and also to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

Powers in the section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. APPEARANCES. Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby before the Department of the Interior and the Commissioner of Public Lands and Division, and to appeal from

orders issued under the regulations of said Department or Land Commissioner and Division or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department or the Land Commissioner and Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

23. **NOTICES.** All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

24. **NO WAIVER OF CERTAIN RIGHTS.** Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

25. **UNAVOIDABLE DELAY.** All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. **NONDISCRIMINATION.** In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

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

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

28. **NON-JOINDER AND SUBSEQUENT JOINDER.** If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division and the Unit Operator prior to the approval of this agreement by the AO and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest, is a working interest, by the owner of such interest only subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner and the Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

29. **COUNTERPARTS.** 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 separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such 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 lands within the above-described unit area.

30. **SURRENDER.** Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If, as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If, as a result of any such surrender or forfeiture, working interest rights become vested in the fee owner of the unitized substances, such owner may:

(a) accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(c) provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within six (6) months after the surrender or forfeited working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

**31. TAXES.** The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interest in said tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

**32. NO PARTNERSHIP.** It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

**33. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS.** Nothing in this agreement shall modify or change either the special Federal lease stipulations relating to surface management or such special Federal lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

THE GARY-WILLIAMS COMPANY

\_\_\_\_\_ By \_\_\_\_\_

Address: 1775 Sherman Street  
Suite 1925  
Denver, Colorado 80203

Date of Execution  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.

The foregoing instrument was acknowledged before me by \_\_\_\_\_  
as \_\_\_\_\_ of \_\_\_\_\_.

This \_\_\_\_\_ day of \_\_\_\_\_, 1993.

WITNESS my hand and official seal.

My Commission Expires:

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

Signature page for the  
Ceja Pelon Unit Agreement  
Sandoval County, New Mexico

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS

CEJA PELON (SHALLOW) UNIT AREA  
SANDOVAL COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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**FEDERAL LANDS:**

1.	T21N-R2W, N.M.P.M.	2,560.00	NM-7448	U.S.A. - All	As to All of Secs. 10, 15,27, and N/2, SE/4, N/2SW/4, SE/4SW/4 of Sec. 22:	None
	Sec. 10: All		Effective			
	Sec. 15: All		10-1-68			
	Sec. 22: All					
	Sec. 27: All					
			HBP			
				Union Pacific	Union Pacific	
				Resources Company	Resources Company	
				29.53125%	29.53125%	
				Pitco Production	Pitco Production	
				Company	Company	
				28.125%	28.125%	
				Gary Williams Oil	Gary Williams Oil	
				Producer Inc.	Producer Inc.	
				20.78125%	20.78125%	
				Energy Development	Energy Development	
				Corporation	Corporation	
				10.9375%	10.9375%	
				Adobe Resources	Adobe Resources	
				Corporation	Corporation	
				7.5%	7.5%	
				Ottawa Energy Inc.	Ottawa Energy Inc.	
				3.125%	3.125%	

As to Sec. 22:	
<u>SW/4SW/4:</u>	
Pitco Production Company	28.125%
Union Pacific Resources Company	24.4125%
Gary Williams Oil Producer Inc.	19.075%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY		LESSEE OF RECORD		OVERRIDING ROYALTY		WORKING INTEREST	
				AND PERCENTAGE	PERCENTAGE	AND PERCENTAGE	PERCENTAGE	AND PERCENTAGE	PERCENTAGE		
1.	cont'd					Energy Development Corporation 10.9375%				Energy Development Corporation 10.9375%	
						Adobe Resources Corporation 7.5%				Adobe Resources Corporation 7.5%	
						Wessely Energy Company 6.825%				Wessely Energy Company 6.825%	
						Ottawa Energy Inc. 3.125%				Ottawa Energy Inc. 3.125%	
2.	T21N-R4W, N.M.P.M. Sec. 25: NW/4	✓ 160.00	NM-14729  Effective 1-1-72	U.S.A. - All		Marathon Oil Company 100%	Guy M. Willis 1.5% Rilla M. Willis 1.5%	Dugan Production Corporation 80% Marathon Oil Company 20%			
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TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
3.	T21N-R3W, N.M.P.M. Sec. 30: Lots 1, 2,3,4, E/2 (All)	400.42	NM-16579 Effective 6-1-73  HBP	U.S.A. - All	Celsius Energy Company 100%	William M. Lansdale 4%  From the surface of the Earth down to the base of the Gallup Formation (4,833'): Celsius Energy Company 6.25% William E. Chittum 2.06295% The Gary-Williams Company 1.086208% Winfield Exploration 1%  Bent, St. Vrain Partners, Incorporated .05656% David L. Christie .05509% John Ernest Lucken and Mary Thorson Lucken, Trustees for John Ernest Lucken under Trust Agreement dated March 13, 1979 .04328% Malcolm Bratton .04328% James W. Vickers .03934% Donald W. Paul .03934% Steven R. Matre .03148% Hiram W. Lewis, Jr. .021632%	From the surface of the Earth down to the base of the Gallup Formation (4,833'): The Gary-Williams Company 41.575% Energy Development Corporation 27.175% Ottawa Energy Inc. 18.75% TALUS Properties Limited Partnership 12.5%  From said depth and below: Celsius Energy Company 100%



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3.	cont'd					<p>Waverly J. Ellsworth, M.D., Trustee for Doctors Ellsworth &amp; Bonvallet Profit Sharing Plan under Trust Agreement dated January 1, 1970 .00843%</p> <p>Aspen Exploration Corporation .008429% Robert K. Torgerson .008429% G. John Schmitz .006466% James G. Murphy .004426% Rainier National Bank, as Custodian of the Sirach/Flinn, Elvins Profit Sharing Plan &amp; Trust for the benefit of J. Michael Flinn, segregated account, under Agreement dated August 10, 1984 .004426%</p> <p>Willis E. James &amp; Euretta M. James .004216% Ross H. Mounsey &amp; Patsy E. Mounsey .00281% Boedecker Resources .00239%</p>	

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3.	cont'd					Dalton C. Webster .002108% Janet L. Peterson .001405% Lee F. Berlin .001405% Robert E. Walker .001054% Sarah M. Walker .001054%	
4.	T21N-R2W, N.M.P.M. Sec. 28: E/2	320.00	NM-22834 Effective 10-1-74 HBP	U.S.A. - All	Dugan Petroleum Corporation 100%	None	Dugan Petroleum Corporation 100%
5.	T20N-R3W, N.M.P.M. Sec. 6: Lots 3,4, 5,6,7, SE/4NW/4, E/2SW/4	285.97	NM-23734 Effective 2-1-75 HBP	U.S.A. - All	The Gary-Williams Company 39.585% Energy Development Corporation 39.585% Ottawa Energy Inc. 12.5% TALUS Properties Limited Partnership 8.33%	John M. Beard 5% Leeman Energy Corporation .5% Don J. Leeman .5% William E. Chittum 1% Esther Oriol & Ronald W. Williams .7917%	The Gary-Williams Company 39.585% Energy Development Corporation 39.585% Ottawa Energy Inc. 12.5% TALUS Properties Limited Partnership 8.33%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
6.	T21N-R3W, N.M.P.M. Sec. 32: All	640.00	NM-24445 Effective 4-1-75  HBP	U.S.A. - All	Dugan Production Corporation 100%	All depths: Suspense 4%  As to W/2 Sec. 32: Chevron USA Inc. 8.5% William E. Chittum .39585%  TALUS Properties Limited Partnership 12.5% 8.33%	As to W/2 Sec 32: The Gary-Williams Company 39.585% Energy Development Corporation 39.585% Ottawa Energy Inc. 12.5%  TALUS Properties Limited Partnership 8.33%
7.	T20N-R4W, N.M.P.M. Sec. 1: Lots 1,2, 3,4, S/2N/2, S/2	565.95	NM-24449 Effective 3-1-75  HBP	U.S.A. - All	Celsius Energy Company 100%	William M. Lansdale 5%  From the surface to 4,600': William E. Chittum 2.29341% The Gary-Williams Company .938525% David L. Christie .479115% Malcolm Bratton .376448%	From the surface of the earth to 4,600' as drilled in the Penistaja 11-1: The Gary-Williams Company 28.063128% Celsius Energy Company 20% Energy Development Corporation 18.343122% Ottawa Energy Inc. 12.65625%
						As to the E/2 Sec. 32: Dugan Production Corporation 100%	

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7.	cont'd.				John Ernest Lucken & Mary Thorson Lucken, Trustees for J. E. Lucken under Trust Agreement dated 3-13-79 .376447 James W. Vickers .342225% Bent, St. Vrain Partners Incorporated .2295% David Hearty .205335% Energy Development Corporation .205335% Hiram W. Lewis, Jr. .188226% Aspen Exploration Corporation .073334% Robert K. Torgerson .073334% Waverly J. Ellsworth, M.D., Trustee for Drs. Ellsworth and Bonvallet Profit Sharing Plan under Trust Agreement dated 1-1-70 .073333% G. John Schmitz .056221% J. Michael Flynn .0385002% James G. Murphy .0385002% Willis E. James & Euretta M. James .036667%		Texaco Producing Inc. 8.75% TALUS Properties Limited Partnership 8.4375% Adobe Resources Corporation 3.75%  From said depth to 6,726': Celsius Energy Company 50% Texaco Producing Inc. 28.93333% Adobe Resources Corporation 15% Dr. Lamar B. Roemer 6.06667%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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7. cont'd.

Ross H. Mounsey &  
Patsy F. Mounsey  
.024445%  
Boedecker Resources  
.0207776%  
Dalton C. Webster  
.0183335%  
Lee F. Berlin .0122225%  
Janet L. Peterson  
.0122225%  
Robert E. Walker  
.00916675%  
Sarah M. Walker  
.00916675%

8.	T21N-R3W, N.M.P.M. Sec. 31: Lots 1,2, 3,4, E/2	406.03	NM-25295  Effective 6-1-75  HBP	U.S.A. - All	The Gary-Williams Company  100%	As to Lots 3,4, SE/4: Billie Robinson 5%	The Gary-Williams Company  100%
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TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
9.	T21N-R4W, N.M.P.M. Sec. 25: SW/4, E/2	480.00 ✓	NM-25611  Effective 7-1-75  HBP	U.S.A. - All	The Gary-Williams Company 43.75% Energy Development Corporation 43.75% Ottawa Energy Inc. 12.5%	Bob Wiggins 3% Carol S. Murray 1% Patricia M. Todd .25%  As to E/2 Sec. 25: <u>From the surface of the Earth to the base of the Gallup Formation:</u> William E. Chittum 1.958%  The Gary-Williams Company 1.19172% Winfield Exploration .6%  David L. Christie .357%  Malcolm Bratton .2805% John Ernest Lucken & Mary Thorson Lucken, Trustees for J. E. Lucken under Trust Agreement dated 3-13-79 .2805% James W. Vickers .255% Donald W. Paul .255% Bent, St. Vrain Partners Incorporated .204% Steven R. Matre .204% Hiram W. Lewis, Jr. .140251% Aspen Exploration Corporation .054643%	From the surface of the Earth to the base of the Gallup Formation: The Gary-Williams Company 37.585% Energy Development Corporation 37.585% Ottawa Energy Inc. 17.33%  TALUS Properties Limited Partnership  <u>From said depth and below:</u> The Gary-Williams Company 43.75% Energy Development Corporation 43.75% Ottawa Energy Inc. 12.5%



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9.	cont'd						
						As to Sec. 25: SW/4:	
						<u>From the surface of the</u>	
						<u>Earth to the base of</u>	
						<u>the Gallup Formation:</u>	
						William E. Chittum	
						1.958%	
						The Gary-Williams	
						Company .65172%	
						Winfield Exploration	
						.6%	
						David L. Christie	
						.357%	
						Malcolm Bratton .2805%	
						John Ernest Lucken &	
						Mary Thorson Lucken,	
						Trustees for J. E.	
						Lucken under Trust	
						Agreement dated	
						3-13-79 .2805%	
						James W. Vickers .255%	
						Donald W. Paul .255%	
						Bent, St. Vrain	
						Partners Incorporated	
						.204%	
						Steven R. Matre .204%	
						Hiram W. Lewis, Jr.	
						.140251%	
						Aspen Exploration	
						Corporation .054643%	
						Waverly J. Ellsworth,	
						M.D., Trustee for	
						Drs. Ellsworth and	
						Bonvallet Profit	
						Sharing Plan under	
						Trust Agreement dated	
						1-1-70 .054643%	



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9.	cont'd					Robert K. Torgerson .054643%	
						G. John Schmitz .041892%	
						J. Michael Flynn .0286875%	
						James G. Murphy .0286875%	
						Willis E. James & Euretta M. James .027321%	
						Ross H. Mounsey & Patsy F. Mounsey .0182145%	
						Boedecker Resources .015482%	
						Dalton C. Webster .0136605%	
						Lee F. Berlin .00910725%	
						Janet L. Peterson .00910725%	
						Robert E. Walker .00683025%	
						Sarah M. Walker .00683025%	

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10.	T21N-R3W, N.M.P.M.	1,280.00	NM-29168	U.S.A. - All	As to All Sec. 20 & N/2, S/2SE/4, NW/4SE/4, N/2SW/4, SE/4SW/4 Sec. 29:	Rodeo Oil Company 5%	As to All Sec. 20: From the surface to the Stratigraphic equivalent of 4,620' as identified in the Taylor 29-13:
	Sec. 20: All		Effective 11-1-77		Union Pacific Resources Company 60%	From the surface to 4,620': William E. Chittum 2.06667%	The Gary-Williams Company 33.220262%
	Sec. 29: All		HBP		Adobe Resources Corporation 30%	Winfield Exploration 1%	Energy Development Corporation 22.480258%
					PITCO Production Company 10%	J. Ellerton Consultants, Inc. .07083%	Ottawa Energy Inc. 13.2%
					As to SW/4SW/4, NE/4SE/4 Sec. 29:	David L. Christie .05833%	Adobe Resources Corporation 12%
					Union Pacific Resources Company 49.6%	Lewis Energy Corporation .05%	TALUS Properties Limited Partnership 8.79948%
					Adobe Resources Company 30%	John Ernest Lucken & Mary Thorson Lucken, Trustees for John Ernest Lucken under Trust Agreement dated March 13, 1979 .04583%	Union Pacific Resources Company 4.2%
					Dr. Lamar B. Roemer 10.4%	Hiram W. Lewis, III .04167%	PITCO Production Co. 4%
					PITCO Production Company 10%	James W. Vickers .04167%	Raymond Chorney 2.1%
						Hiram W. Lewis, Jr. .037802%	From said depth to 100' below the stratigraphic equivalent of 5,801':
						Bent, St. Vrain Partners, Incorporated .03333%	Adobe Resources Corporation 30%
						G. John Schmitz .003868%	The Gary-Williams Company 20.68815%
							Energy Development Corporation 15.43815%



TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
10.	cont'd						
						Robert K. Torgerson .054643%	From the stratigraphic equivalent of 4,620'
						G. John Schmitz .041892%	100' below the strati- graphic equivalent of
						J. Michael Flynn .0286875%	5,801' which is the total depth drilled
						James G. Murphy .0286875%	in the Taylor 29-9 located NE/4SE/4
						Willis E. James & Euretta M. James .027321%	Sec. 29-21N-3W: The Gary-Williams Company 39.585%
						Ross H. Mounsey & Patsy F. Mounsey .0182145%	Energy Development Corporation 39.585%
						Boedecker Resources Dalton C. Webster .0136605%	Ottawa Energy Inc. 12.5%
						Lee F. Berlin .00910725%	TALUS Properties Limited Partnership 8.33%
						Janet L. Peterson .00910725%	As to NE/4, NW/4SE/4, S/2SE/4 Sec. 29:
						Robert E. Walker .00683025%	From the surface of the earth to 4,620' which is the total depth drilled in the
						Sarah M. Walker .00683025%	Taylor 29-13 Well located in SW/4SW/4 Sec. 29-21N-3W:
						From 4,620' to 5,801': William E. Chittum .308763%	The Gary-Williams Company 34.6829% Energy Development Corporation 26.0429% Ottawa Energy Inc. 14.325%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
10.	cont'd				<p>As to NE/4SE/4 Sec. 29:  <u>From the surface to</u>  <u>4,620':</u>            William E. Chittum                                1.76634%            The Gary-Williams            Company       .80472%            Winfield Exploration                                .6%            David L. Christie                                .357%            Malcolm Bratton .2805%            John Ernest Lucken &amp;            Mary Thorson Lucken,            Trustees for J. E.            Lucken under Trust            Agreement dated            3-13-79       .2805%            James W. Vickers .255%            Bent, St. Vrain            Partners Incorporated                                .204%            Energy Development            Corporation   .153%            David Hearty   .153%            Hiram W. Lewis, Jr.                                .14025%            Waverly J. Ellsworth,            M.D., Trustee for            Drs. Ellsworth and            Bonvallet Profit            Sharing Plan under            Trust Agreement dated            1-1-70       .054643%            Aspen Exploration            Corporation .054643%</p>		<p>TALUS Properties            Limited Partnership                                9.5492%            Union Pacific            Resources Company                                8.4%            PITCO Production Co.                                4%            Adobe Resources            Corporation    3%            From said depth to 100':            below the stratigraphic            equivalent of 5801'            which is the total depth            drilled in the Taylor            29-9 well located NE/4            SE/4 Sec. 29-21N-3W:            The Gary-Williams            Company       39.585%            Energy Development            Corporation   39.585%            Ottawa Energy Inc.                                12.5%            TALUS Properties            Limited Partnership                                8.33%</p>

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
10.	cont'd						As to SW/4SW/4 Sec. 29:
					Robert K. Torgerson .054643%		From the surface to
					G. John Schmitz .041892%		4,620' which is the
					J. Michael Flynn .0286875%		total depth drilled
					James G. Murphy .0286875%		in the Tayler 29-13
					Willis E. James & Euretta M. James .027321%		Well located in the
					Ross H. Mounsey & Patsy F. Mounsey .0182145%		SW/4SW/4 Sec. 29 -
					Boedecker Resources .015482%		21N-3W:
					Dalton C. Webster .0136605%		The Gary-Williams
					Lee F. Berlin .00910725%		Company 41.575%
					Janet L. Peterson .00910725%		Energy Development
					Robert E. Walker .00683025%		Corporation 27.175%
					Sarah M. Walker .00683025%		Ottawa Energy Inc.
							18.75%
							TALUS Properties
							Limited Partnership
							12.5%
							From said depth and
							below:
							Adobe Resources
							Corporation 30%
							Union Pacific
							Resources Company
							24.8%
							Raymond Chorney 12.4%
							The Gary-Williams
							Company 12.4%
							Dr. Lamar B. Roemer
							10.4%
							PITCO Production
							Company 10%
							From 4,620' to 5,901':
							William E. Chittum
							.39585%
							Texaco Producing Inc.
							2.48%
							PITCO Production
							Company .75%



TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
10.	cont'd					From 4,620' to 5,901': William E. Chittum .39585% Texaco Producing Inc. 2.48% PITCO Production Company .75% Dr. Lamar B. Roemer .52% Adobe Resources Corporation .9%	Ottawa Energy Inc. 7.6875% Adobe Resources Corporation 7.5% Raymond Chorney 5.25% TALUS Properties Limited Partnership 5.12295%
As to SW/4 Sec. 29: From the surface to 4,620': Texaco Producing, Inc. 3.1195% William E. Chittum 2.06667% Adobe Resources Corporation 1.875% The Gary-Williams Company 1.1112% Dr. Lamar B. Roemer .6305% PITCO Production Co. .625% Winfield Exploration .1% David L. Christie .05833% Malcolm Bratton .04583%							





TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE		LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
10.	cont'd										
								Malcolm Bratton	.04583%		
								John Ernest Lucken & Mary Thorson Lucken, Trustees for J. E. Lucken under Trust Agreement dated 3-13-79	.04583%		
								James W. Vickers	.04167%		
								Bent, St. Vrain Partners Incorporated	.0333%		
								Energy Development Corporation	.025%		
								David Hearty	.025%		
								Hiram W. Lewis, Jr.	.02292%		
								Aspen Exploration Corporation	.00893%		
								Robert K. Torgerson	.00893%		
								Waverly J. Ellsworth, M.D., Trustee for Drs. Ellsworth and Bonvallet Profit Sharing Plan under Trust Agreement dated 1-1-70	.008929%		
								G. John Schmitz	.006844%		

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
10.	cont'd					J. Michael Flynn .0046881% James G. Murphy .0046881% Willis E. James & Euretta M. James .004465% Ross H. Mounsey & Patsy F. Mounsey .0029765% Boedecker Resources .0025298% Dalton C. Webster .0022325% Lee F. Berlin .00148825% Janet L. Peterson .00148825% Robert E. Walker .00111625% Sarah M. Walker .00111625%	
						From 4,620 to 5,801': <u>William E. Chittum</u> .486896%	

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
11.	cont'd					Steven R. Matre .015335% Waverly J. Ellsworth, M.D., Trustee for Drs. Ellsworth and Bonvallet Profit Sharing Plan under Trust Agreement dated 1-1-70       .004107% Aspen Exploration Corporation .003632% Robert K. Torgerson .003632% G. John Schmitz .003146% James G. Murphy .00215595% J. Michael Flynn .00215595% Willis E. James & Eurette M. James .002053% Ross H. Mounsey & Patsy F. Mounsey .001369% Boedecker Resources .001163% Dalton C. Webster .0010265% Lee F. Berlin .0006845% Janet L. Peterson .0006845% Robert E. Walker .00051325% Sarah M. Walker .00051325%	

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
12.	T21N-R2W, N.M.P.M. Sec. 9: All Sec. 16: All Sec. 21: NE/4, W/2SE/4 Sec. 28: W/2	1,840.00	NM-54680 Effective 6-1-83 Expires 5-31-93	U.S.A. - All	Samuel Gary Jr. & Associates, Inc. The Gary-Williams Company 50% 50%	None	Samuel Gary Jr. & Associates, Inc. The Gary-Williams Company 50% 50%
13.	T21N-R3W, N.M.P.M. Sec. 33: N/2NW/4	80.00	NM-56419 Effective 7-1-83 HBP	U.S.A. - All	The Gary-Williams Company Energy Development Corporation Ottawa Energy Inc. TALUS Properties Limited Partnership 39.585% 39.585% 12.5% 8.33%	Production Payment of \$10,000.00/acre payable out of 5%: Sherbourne Partnership	The Gary-Williams Company Energy Development Corporation Ottawa Energy Inc. TALUS Properties Limited Partnership 39.585% 39.585% 12.5% 8.33%
14.	T21N-R3W, N.M.P.M. Sec. 12: E/2E/2	160.00	NM-67508 Effective 1-1-87 Expires 12-31-96	U.S.A. - All	Joseph P. Sorenson 100%	None	Joseph P. Sorenson 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
15.	T20N-R3W, N.M.P.M. Sec. 6: Lots 1,2, S/2NE/4, SE/4	302.46	NM-76817 Effective 9-1-88  Expires 8-31-93	U.S.A. - All	Gary-Williams Oil Producer, Inc. 100%	None	Gary-Williams Oil Producer, Inc. 100%
16.	T21N-R3W, N.M.P.M. Sec. 23: S/2SE/4 Sec. 34: S/2NE/4	160.00	NM-76818 Effective 9-1-88  Expires 8-31-93	U.S.A. - All	Gary-Williams Oil Producer, Inc. 100%	None	Gary-Williams Oil Producer, Inc. 100%
17.	T21N-R3W, N.M.P.M. Sec. 16: W/2SW/4 Sec. 33: E/2	400.00	NM-78287 Effective 12-1-88  Expires 11-30-93	U.S.A. - All	F. L. Shogrin 100%	None	F. L. Shogrin 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
18.	T21N-R2W, N.M.P.M. Sec. 21: E/2SE/4	80.00	NM-81088 Effective 4-1-89 Expires 3-31-94	U.S.A. - All	Yates Drilling Company 32% ABO Petroleum Corporation 32% MYCO Industries, Inc. 32% Yates Petroleum Corporation 4%	None	Yates Drilling Company 32% ABO Petroleum Corporation 32% MYCO Industries, Inc. 32% Yates Petroleum Corporation 4%
19.	T21N-R3W, N.M.P.M. Sec. 25: NE/4, E/2NW/4, S/2	560.00	NM-81093 Effective 4-1-89 Expires 3-31-94	U.S.A. - All	Joan Chorney 25% Yates Drilling Company 24% ABO Petroleum Corporation 24% MYCO Industries, Inc. 24% Yates Petroleum Corporation 3%	None	Joan Chorney 25% Yates Drilling Company 24% ABO Petroleum Corporation 24% MYCO Industries, Inc. 24% Yates Petroleum Corporation 3%
20.	T21N-R3W, N.M.P.M. Sec. 12: SW/4	160.00	NM-81838 Effective 8-1-89 Expires 7-31-94	U.S.A. - All	Daniel E. Gonzales 100%	None	Daniel E. Gonzales 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
21.	T21N-R3W, N.M.P.M. Sec. 24: NE/4, E/2NW/4, SW/4NW/4, N/2S/2, SE/4SW/4, S/2SE/4	✓ 560.00	NM-81839 Effective 8-1-89 Expires 7-31-94	U.S.A. - All	Yates Petroleum Corporation 100%	None	Yates Petroleum Corporation 100%
22.	T21N-R2W, N.M.P.M. Sec. 18: Lots 1, 2,3,4, E/2W/2, E/2	632.04	NM-84666 Effective Expires	U.S.A. - All			
23.	T21N-R3W, N.M.P.M. Sec. 16: N/2, E/2SW/4, SE/4	✓ 560.00	NM-84678 Effective 6-1-90 Expires 5-31-95	U.S.A. - All	Samuel Gary, Jr. & Associates, Inc. 100%	None	Samuel Gary, Jr. & Associates, Inc. 100%



TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE		LESSEE OF RECORD AND PERCENTAGE		OVERRIDING ROYALTY AND PERCENTAGE		WORKING INTEREST AND PERCENTAGE	
24.	T21N-R3W, N.M.P.M. Sec. 21: NE/4, NW/4NW/4, S/2NW/4, S/2	600.00	NM-84679  Effective 6-1-90  Expires 5-31-95	U.S.A. - All		Samuel Gary, Jr. & Associates, Inc. 100%		None		Samuel Gary, Jr. & Associates, Inc. 100%	
25.	T21N-R3W, N.M.P.M. Sec. 26: NE/4	160.00	NM-84681  Effective 6-1-90  Expires 5-31-95	U.S.A. - All		Samuel Gary, Jr. & Associates, Inc. 100%		None		Samuel Gary, Jr. & Associates, Inc. 100%	
26.	T21N-R3W, N.M.P.M. Sec. 27: All	640.00	NM-84682  Effective 6-1-90  Expires 5-31-95	U.S.A. - All		Samuel Gary, Jr. & Associates, Inc. 100%		None		Samuel Gary, Jr. & Associates, Inc. 100%	

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
27.	T21N-R3W, N.M.P.M. Sec. 33: Beginning at a point from which the NW corner of Sec. 33, T21N-R3W, N.M.P.M., bears South 0 Deg. 8' West 20 chains; thence East 40.01 chains; thence South 0 Deg. 8' West 6.66 chains; thence West 40.02 chains; thence North 0 Deg. 8' East 6.66 chains to the point of beginning.	26.66 ✓	NM-84683 Effective 6-1-90 Expires 5-31-95	U.S.A. - All	Samuel Gary, Jr. & Associates, Inc. 100%	None	Samuel Gary, Jr. & Associates, Inc. 100%
28.	T21N-R3W, N.M.P.M. Sec. 34: N/2NE/4, W/2, SE/4	560.00	NM-84684 Effective 6-1-90 Expires 5-31-95	U.S.A. - All	Samuel Gary, Jr. & Associates, Inc. 100%	None	Samuel Gary, Jr. & Associates, Inc. 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
29.	T21N-R2W, N.M.P.M. Sec. 7: Lots 1, 2, 3, 4, E/2, E/2W/2 (All) Sec. 20: W/2	949.36	NM-86455 Effective 6-1-91 Expires 5-31-96	U.S.A. - All	PG&E Resources Company 100%	None	PG&E Resources Company 100%
30.	T21N-R3W, N.M.P.M. Sec. 12: W/2E/2, NW/4 Sec. 13: NE/4, SE/4SW/4, SE/4SE/4	560.00	NM-86857 Effective 9-1-91 Expires 8-31-96	U.S.A. - All	Meridian Oil Inc. 100%	None	Meridian Oil Inc. 100%
31.	T21N-R3W, N.M.P.M. Sec. 21: NE/4NW/4	40.00	NM-86858 Effective 9-1-91 Expires 8-31-96	U.S.A. - All	Yates Drilling Company 32% ABO Petroleum Corporation 32% MYCO Industries, Inc. 32% Yates Petroleum Corporation 4%	None	Yates Drilling Company 32% ABO Petroleum Corporation 32% MYCO Industries, Inc. 32% Yates Petroleum Corporation 4%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
35.	T21N-R2W, N.M.P.M. Sec. 8: All	640.00	NM-89014 Effective 6-1-92 Expires 5-31-97	U.S.A. - All	Samuel Gary Jr. & Associates, Inc. 100%	None	Samuel Gary Jr. & Associates, Inc. 100%
36.	T21N-R2W, N.M.P.M. Sec. 20: E/2SE/4 Sec. 29: All	720.00	NM-89632 Effective 7-1-83 Expires 6-30-93	U.S.A. - All	The Gary-Williams Company 79.166667% Samuel Gary Jr. & Associates, Inc. 12.5% Talus Properties 8.33333%	None	The Gary-Williams Company 79.166667% Samuel Gary Jr. & Associates, Inc. 12.5% Talus Properties 8.33333%
37.	T21N-R2W, N.M.P.M. Sec. 19: Lots 1, 2, 3, 4, E/2, E/2W/2 (All) Sec. 30: Lots 1, 2, 3, 4, E/2, E/2W/2 (All)	1,273.20	NM-89633 Effective 7-1-89 Expires 6-30-94	U.S.A. - All	The Gary-Williams Company 100%	None	The Gary-Williams Company 100%

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE			
38.	T21N-R2W, N.M.P.M. Sec. 17: All Sec. 20: NE/4, W/2SE/4	1,040.00	Unknown at this time							
	T21N-R3W, N.M.P.M. Sec. 24: NW/4NW/4, SW/4SW/4 Sec. 25: W/2NW/4									
38	FEDERAL	TRACTS	TOTALING	<del>24,335.43</del>	ACRES	OR	96.58%	OF	UNIT	AREA
STATE LANDS:										
39.	T21N-R3W, N.M.P.M. Sec. 36: All	640.00	LG-2849-A Effective 7-1-75 Expires HBP	State of New Mexico - All	Celsius Energy Company	None	100%			Celsius Energy Company 100%
1	STATE	TRACT	TOTALING	640.00	ACRES	OR	2.58%	OF	UNIT	AREA

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
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PATENTED LANDS:

40. T21N-R3W, N.M.P.M. 213.34 Unknown at this time  
 Sec. 33: S/2NW/4,  
 SW/4 LESS & EXCEPT a  
 26.66 acre parcel as  
 described in Tract 27 herein

1	PATENTED	TRACT	TOTALING	213.34	ACRES	OR	.86%	OF	UNIT	AREA
<i>included in no document</i>										
40	TRACTS	TOTALING	24,975.43	ACRES	IN	UNIT	AREA			

EXHIBIT 5  
CASE NO. 10714/10715

## UNIT OPERATING AGREEMENT

CEJA PELON

UNIT AREA

COUNTY OF SANDOVAL

STATE OF NEW MEXICO

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NOTE: Attention is called to pages 1, 6, 10, 11, 13, 14, 15, 16, and 19, which contain blanks to be filled in.

## UNIT OPERATING AGREEMENT

CEJA PELON

UNIT AREA

THIS AGREEMENT made as of the \_\_\_\_\_ day of \_\_\_\_\_, 1991, by and among the parties who execute or ratify this Agreement or a counterpart hereof,

### WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE \_\_\_\_\_ CEJA PELON \_\_\_\_\_ UNIT AREA, County of \_\_\_\_\_ SANDOVAL \_\_\_\_\_, State of \_\_\_\_\_ NEW MEXICO \_\_\_\_\_, dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 1991, and hereinafter referred to as the "Unit Agreement", covering the lands described in EXHIBIT B thereto attached, which lands are referred to in the Unit Agreement and in this Agreement as the "Unit Area"; and

WHEREAS, the Parties enter into this Agreement pursuant to Section 7 of the Unit Agreement, NOW, THEREFORE, in consideration of the covenants herein contained, it is agreed as follows:

### ARTICLE 1 DEFINITIONS

1.1 **Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this Agreement:

"Unit Operator" means \_\_\_\_\_ and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of a Committed Working Interest.

"Party" means a party to this Agreement, including the Party acting as Unit Operator when acting as an owner of a Committed Working Interest.

"Drilling Party", "Completing Party", and "Participating Party" all mean the Party or Parties obligated to bear Costs incurred in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well at the commencement of such operation.

"Non-Drilling Party", "Non-Completing Party", and "Non-Participating Party" all mean the Party or Parties who had the optional right to participate in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well and who elected not to participate therein.

"Committed Working Interest" means a working interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this Agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

"Acreage Basis", when used to describe the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this Agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the Committed Working Interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided Committed Working Interests in a tract, there shall be apportioned to each such Committed Working Interest that proportion of the acreage of the tract that such Committed Working Interest bears to the entire Committed Working Interest in the tract.

"Production" means all unitized substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this Agreement.

"Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this Agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the Accounting Procedure attached hereto as Exhibit 1, which shall govern in all matters covered thereby, except that in the event of an inconsistency between said Accounting Procedure and this Agreement, this Agreement shall control.

"Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment, and any similar burden, but does not include a carried working interest, a net profits interest, or any other interest which is payable out of profits.

"Drill" means to perform all operations reasonably necessary and incident to the drilling of a well to its projected depth, including preparation of roads and drill site, testing, and logging, but excluding Completion operations.

"Complete" means to perform all operations reasonably necessary and incident to the completion of a well, commencing with the running and setting of the production pipe and, if productive of unitized substances, equipping through the wellhead connections, or plugging and abandoning, if dry.

"Equip" means to perform all operations reasonably necessary and incident to the equipping of a well for production beyond the wellhead connections.

**"Deepen" or "Plug Back"** means to perform all operations reasonably necessary and incident to Drilling a well below its original projected depth or plugging back a well to a depth above its original projected depth, testing, and logging, but excluding Completing and Equipping operations.

**"Initial Test Well"** means the test well or wells provided for in Section 9 of the Unit Agreement and in Exhibit 2 attached hereto.

**"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well and before discovery of unitized substances in Paying Quantities in the Unit Area.

**"Development Well"** means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

**"Exploratory Well"** means a well (other than a Development Well) Drilled after discovery of unitized substances in Paying Quantities in the Unit Area.

**"Approval of the Parties" or "Direction of the Parties"** means an approval, authorization, or direction which receives the affirmative vote of the Parties entitled to vote on the giving of such Approval or Direction, as specified in Section 14.2.

**"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well, determined in accordance with Exhibit 1, less the reasonably estimated Costs of salvaging the same and plugging and abandoning the well.

**"Appropriate Agency"** means the agency designated in the applicable Federal Regulations, including any person acting under the authority thereof.

**"Paying Quantities"** means paying quantities as defined in Section 9 of the Unit Agreement.

**Other Definitions:**

**ARTICLE 2  
EXHIBITS**

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

**Exhibit 1.** Accounting Procedure.

**Exhibit 2.** Initial Test Well.

**Exhibit 3.** Insurance.

**Exhibit 4.** Non-Discrimination.

~~**Exhibit 5.** Oil and Gas Lease.~~

**Exhibit 6.** Gas Balancing Agreement

In the event of a conflict or inconsistency between the provisions of an Exhibit and the provisions of this Agreement, the provisions of this Agreement shall control.

**ARTICLE 3  
INITIAL TEST WELL**

**3.1 Location.** Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement, or any extension thereof, at the location specified in Exhibit 2.

**3.2 Costs of Drilling.** Subject to the investment adjustment provisions of Article 13, the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in Exhibit 2.

**ARTICLE 4  
SUBSEQUENT TEST WELLS**

**4.1 Right to Drill.** The Drilling of any Subsequent Test Well shall be upon such terms and conditions as may be agreed to by the Parties; provided, however, that in the absence of agreement, such well may be Drilled under the provisions of Article 9.

**ARTICLE 5  
ESTABLISHMENT, REVISION, AND CONSOLIDATION  
OF PARTICIPATING AREAS**

**5.1 Proposal.** Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least twenty (20) days before filing the same with the Appropriate Agency. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

**5.2 Objections to Proposal.** Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Appropriate Agency.

**5.3 Revised Proposal.** If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60) days from submission of the

first proposal, then Unit Operator shall file with the Appropriate Agency a proposal reflecting as nearly as practicable the various views expressed by the Parties.

**5.4 Rejection of Proposal.** If a proposal filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

**5.5 Consolidation.** Two or more participating areas may be combined as provided in the Unit Agreement.

## ARTICLE 6 APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

**6.1 Apportionment and Ownership Within Participating Area.** Except as otherwise provided in Articles 8, 9, 11, and 12:

**A. Costs.** All Costs incurred in the development and operation of a participating area for or in connection with production of unitized substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis, determined as of the time such Costs are incurred.

**B. Production.** All Production from a participating area shall be allocated on an Acreage Basis to the tracts of unitized land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon and as if this Agreement and the Unit Agreement had not been executed.

**C. Property.** All materials, equipment, and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area, shall be owned by the Parties within such participating area on an Acreage Basis.

**6.2 Ownership and Costs Outside Participating Area.** If a well Drilled (including the Deepening or Plugging Back thereof) within a Drilling Block established under the provisions of either Article 9 or Article 10 is completed as a producer but not included within a participating area, then the following provisions shall be applicable:

**A. When All Drilling Block Parties Participate.** If all Parties within the Drilling Block shall have elected to participate in Drilling and Completing such well, then said well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by such Parties; and all Costs incurred in the operation of such well and all Lease Burdens payable in respect of Production from such well shall be borne and paid by said Parties. Apportionment among said Parties of ownership, Costs, and Lease Burdens shall be in the same proportions in which Costs incurred in Drilling the well were borne.

**B. When Less Than All Drilling Block Parties Participate.** If any Party within the Drilling Block shall have elected not to participate in Drilling or Completing such well, then the provisions of Article 12 shall be applicable thereto; and the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.4 with respect to a well which results in the establishment or enlargement of a participating area, except that the proceeds or market value to be used in determining when such reversion shall occur shall be the proceeds or market value (after making the deductions provided for in Section 12.4) of that portion of the Production obtained from the well which, had the Non-Drilling Party elected to participate in the Drilling or Completing thereof, would have been allocable, on an Acreage Basis within the Drilling Block, to the Non-Drilling Party. Upon reversion of the relinquished interest of the Non-Drilling Party in such well, the provisions of Section 12.5 shall become applicable.

**6.3 Cost Liability of Subsequently Created Interests.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this Section 6.3 and of Section 12.9. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed Working Interest; and Unit Operator shall have the right to enforce against such Subsequently Created Interest the lien and all other rights granted in Section 15.5 for the purpose of collecting Costs chargeable to the Subsequently Created Interest.

**6.4 Taking in Kind.** Each Party shall currently, as produced, take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5, each Party shall be entitled to receive directly all proceeds from the sale of its share of Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

**6.5 Failure to Take in Kind.** Should any Party fail to take in kind or separately dispose of its share of Production, the Party acting as Unit Operator shall have the right, revocable at will by the Party owning such share, to purchase such share for its own account at not less than the market price

prevailing in the area for Production of like kind and quality, or to sell such share to others at not less than the price which it receives for its own share of Production; provided that all such sales shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but not to exceed one (1) year. Notwithstanding the foregoing, Unit Operator shall not sell or commit any Party's share of gas Production to a sale without first giving such Party not less than ninety (90) days' written notice.

**6.6 Surplus Materials and Equipment.** Materials and equipment owned by the Parties or by any of them pursuant to this Agreement may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars (\$7,500.00).

B. Surplus materials and equipment not divided in kind, other than junk and any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars (\$7,500.00), shall be sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this Section shall be disposed of as provided in Exhibit 1.

## ARTICLE 7 PLANS OF DEVELOPMENT

**7.1 Submittal of Plans.** Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the Appropriate Agency in accordance with the Unit Agreement and the further provisions of this Article.

**7.2 Proposal.** Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at least thirty (30) days before filing the same with the Appropriate Agency. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

**7.3 Objections to Plan.** Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the Appropriate Agency.

**7.4 Revised Plan.** If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the Appropriate Agency a plan reflecting as nearly as practicable the various views expressed by the Parties.

**7.5 Rejection of Plan.** If a plan filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new plan in the same manner as provided in Section 7.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

**7.6 Notice of Approval or Disapproval.** If and when a plan has been approved or disapproved by the Appropriate Agency, Unit Operator shall give prompt notice thereof to each Party.

**7.7 Supplemental Plans.** If any Party or Parties shall have elected to proceed with a Drilling, Deepening, or Plugging Back operation in accordance with the provisions of this Agreement, and such operation is not provided for in the then current plan of development approved by the Appropriate Agency, Unit Operator shall either (a) submit to the Appropriate Agency for approval a supplemental plan providing for the conduct of such operation or (b) request the Appropriate Agency to consent to such operation, if such consent is sufficient.

**7.8 Cessation of Operations Under the Plan.** If any plan approved by the Appropriate Agency provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the Appropriate Agency.

## ARTICLE 8 DEVELOPMENT WELLS

**8.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing a Development Well.

**8.2 Drilling.** The Drilling of a Development Well shall be pursuant to the procedure herein set forth.

A. **Approval Required.** The Drilling of a Development Well shall be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of a Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof but shall mean only that such Party

considers the Drilling of the well to be consistent with the efficient and economic development of the participating area involved and has no objection to the Drilling thereof.

**B. Notice of Proposed Drilling.** Subject to the provisions of Subdivision A of this Section 8.2, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area notice, specifying the location, depth, and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern then existing or an approved exception thereto.

**C. Response to Notice.** Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 30-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within such participating area advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

**D. Notice of Election to Proceed.** Unless all Parties within the participating area agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 30-day period specified in Subdivision C of this Section 8.2, each Party within the participating area then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

**E. Subsequent Election.** If election to Drill the proposed well is made, any Party within the participating area who had not previously elected to participate therein may do so by notice given to Unit Operator at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

**F. Effect of Election.** If one or more, but not all, of the Parties within the participating area elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

**G. Rights and Obligations of Drilling Party and Non-Drilling Party.** Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 shall be applicable to such operation.

**8.3 Attempted Completion.** The attempted Completion of Development Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After a Development Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

**C. Time and Manner of Initiating Proposal.** A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 8.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Drilling Party shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.



## ARTICLE 9 EXPLORATORY WELLS

**9.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing an Exploratory Well.

**9.2 Drilling.** The Drilling of an Exploratory Well shall be pursuant to the procedure herein set forth.

**A. Notice of Proposed Drilling.** Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed 640 acres, which, on the basis of available geological information, will, in its judgment, be proved productive by the Drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with notice of the location, objective formation, estimated depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an approved exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be Drilled thereon nor any land included in a proposal therefor filed with the Appropriate Agency nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and, if the actual Drilling of a well is commenced thereon within such period, until either:

- (1) the Completion of the well, if it is completed otherwise than as a producer of unitized substances in Paying Quantities, either at its original projected depth or, if Deepening or Plugging Back operations are conducted, at any other projected depth; or
- (2) the filing with the Appropriate Agency of a proposal for the establishment or revision of a participating area if the Completion of the well results in the filing of such proposal.

**B. Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of Drilling the proposed well on an Acreage Basis but shall be required to do so only if it notifies the other Parties within the Drilling Block of its willingness so to participate, as hereinafter in this Article 9 provided.

**C. Exclusion of Land From Proposed Drilling Block.** Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block, as reduced by the exclusion of such land, shall be established as the Drilling Block. In the absence of any such Direction, then, at the expiration of said 30-day period, the proposed Drilling Block shall be established as the Drilling Block.

**D. Preliminary Notice to Join in Drilling.** Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 10-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within the Drilling Block advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

**E. Notice of Election to Proceed.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 10-day period specified in Subdivision D of this Section 9.2, each Party within the Drilling Block then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

**F. Subsequent Election.** If election to Drill the proposed well is made, any Party within the Drilling Block who had not previously elected to participate therein may do so by notice given to all other Parties within the Drilling Block at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

**G. Effect of Election.** If one or more, but not all, of the Parties within the Drilling Block elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

**H. Rights and Obligations of Drilling Party and Non-Drilling Party.** Whenever an Exploratory Well is Drilled otherwise than for the account of all Parties within the Drilling Block involved, the provisions of Article 12 shall be applicable to such operation.

**9.3 Attempted Completion.** The attempted Completion of Exploratory Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After an Exploratory Well has reached its projected depth and has been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

**C. Time and Manner of Initiating Proposal.** A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 9.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Party entitled to participate in the Completion attempt shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Exploratory Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

## ARTICLE 10 REQUIRED WELLS

**10.1 Definition.** For the purpose of this Article, a well shall be deemed a Required Well if the Drilling thereof is required by a final order of the Appropriate Agency. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each Party. If any such order is appealed, the Party appealing shall give prompt notice thereof to Unit Operator and to each of the other Parties, and, upon final disposition of the appeal, Unit Operator shall give each Party prompt notice of the result thereof.

**10.2 Election to Drill.** Any Party desiring to Drill, or to participate in the Drilling of, a Required Well shall give to Unit Operator notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with such order. If such notice is given within said period, Unit Operator shall Drill the Required Well for the account of the Party or Parties giving such notice; provided, however, if the Required Well is a Development Well, it shall not be Drilled unless it receives the Approval of the Parties within the participating area involved. All rights and obligations with respect to the ownership of such well, the operating rights therein, the Production therefrom, and the bearing of Costs incurred therein shall be the same as if the well had been Drilled under Article 8, if the same is a Development Well, or under Article 9, if the same is an Exploratory Well or a Subsequent Test Well.

**10.3 Alternatives to Drilling.** If no Party elects to Drill a Required Well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

**A. Compensatory Royalties.** If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

**B. Contraction.** If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make a reasonable effort to effect such contraction; or

**C. Termination.** If the Required Well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

**10.4 Required Drilling.** If none of the foregoing alternatives is available, Unit Operator shall Drill the Required Well under whichever of the following provisions is applicable:

**A. Development Well.** If the Required Well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

**B. Exploratory Well.** If the Required Well is an Exploratory Well, the Drilling Block for such well shall consist of all forty (40) acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within any participating area theretofore

established for the pool or zone to which the well is to be Drilled. Unit Operator shall Drill such well for the account of all the Parties owning Committed Working Interests within the Drilling Block, on an Acreage Basis among themselves; and no such Party shall have the right to elect not to participate in the Drilling of said well.

## ARTICLE 11 DEEPENING, PLUGGING BACK, AND ABANDONMENT

**11.1 Attempted Deepening or Plugging Back.** The attempted Deepening or Plugging Back of wells not completed as producers of unitized substances at their original projected depths shall be governed by the following provisions of this Section 11.1 and by the provisions of Section 11.2, unless every Party entitled to the notice provided for in Subdivision A of this Section 11.1 has consented to the plugging and abandonment of such well:

**A. Notice by Unit Operator.** Before abandoning any well which has been Drilled to its original projected depth but not completed as a producer of unitized substances, Unit Operator shall give notice of its intention to plug and abandon such well to each Drilling Party and Non-Drilling Party.

**B. Right to Initiate Proposal.** Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A of this Section 11.1 and any other Party owning a Committed Working Interest in the tract of land on which the well is located may initiate a proposal to attempt to Deepen or Plug Back such well; provided, however, if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located.

**C. Right to Participate.** In order to be entitled to participate in a Deepening or Plugging Back operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling Block theretofore established for Drilling the well involved; if no Drilling Block was theretofore established for Drilling such well, the Drilling Block for such Deepening or Plugging Back operation shall be established automatically in accordance with the provisions of Subdivision B of Section 10.4, which shall be applicable hereto.

**D. Time and Manner of Initiating Proposal.** A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 11.1 shall be allowed within which a Party entitled to do so may initiate a proposal to Deepen or Plug Back. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation. If no such proposal is initiated within said period, Unit Operator shall plug and abandon the well for the account of the Completing Party if a Completion attempt was made or, if not, then for the account of the Drilling Party.

**E. Election.** If a proposal to Deepen or Plug Back a well is initiated, each Party entitled to participate in the operation proposed shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the proposed operation.

**F. Effect of Election.** The Party or Parties electing to participate in an operation to Deepen or Plug Back a well as above provided shall constitute the Participating Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Participating Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Participating Party, on an Acreage Basis among themselves, subject, however, to the provisions of Section 11.2 and Section 11.3. If the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging and abandoning the well shall be charged and borne as part of the Costs incurred in Drilling the well.

**G. Rights and Obligations of Participating Party and Non-Participating Party.** Upon the commencement of a Deepening or Plugging Back operation otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 shall be applicable to such operation.

**11.2 Deepening or Plugging Back to Participating Area.** If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to the pool or zone for which such participating area was established, such operation, including the Completion of such well, may be conducted only if it receives the Approval of the Parties within such participating area, and only upon such terms and conditions as may be specified in such Approval, and upon such further terms and conditions as may be agreed to by the Parties owning interests in the well immediately prior to the commencement of any such Deepening or Plugging Back operation.

**11.3 Conflicts.** If conflicting elections to attempt to Deepen or Plug Back are made in accordance with the provisions of this Article 11, preference shall be given first to Deepening. However, if a Deepening attempt does not result in completion of the well as a producer of unitized substances, Unit Operator shall again give notice in accordance with Subdivision A of Section 11.1 before plugging and abandoning the well.

**11.4 Attempted Completion.** Except as otherwise provided in Section 11.2, the attempted Completion of a well Deepened or Plugged Back to the depth projected for such Deepening or Plugging Back operation shall be governed by the provisions of Section 9.3, unless every Participating Party has

consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Participating Party.

**11.5 Abandonment of Producing Wells.** A well completed as a producer of unitized substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of Section 11.6. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

**A. Consent Required.** Such well shall not be abandoned for production from the pool or zone in which it is Completed, except with the consent of all Parties then owning the well.

**B. Abandonment Procedure.** If the abandonment of such well receives the Approval of the Parties who own the well but is not consented to by all such Parties, Unit Operator shall give notice thereof to each Party, if any, then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called Non-Abandoning Party) may give notice thereof to all other Parties (herein called Abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the Non-Abandoning Party or Parties shall forthwith pay to the Abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the Abandoning Parties shall be deemed to have relinquished to the Non-Abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then Completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one Non-Abandoning Party, the interests so relinquished shall be owned by the Non-Abandoning Parties in the proportions which their respective interests in the well bear to the total of their interests therein immediately prior to such relinquishment.

**C. Rights and Obligations of Non-Abandoning Party.** After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the Non-Abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens, and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided) and also the Costs of any additional tankage, flow lines, or other facilities needed to measure separately the unitized substances produced from the well. Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 1, if such rate is provided.

**D. Option to Repurchase Materials.** If a well taken over by the Non-Abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the Abandoning Parties of their interests therein, each Abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well which is equal to the interest relinquished by it to the Non-Abandoning Party or Parties, at the value previously fixed therefor. Said option may be exercised only by notice given to Unit Operator and to the Non-Abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to Section 11.6.

**11.6 Deepening or Plugging Back Abandoned Producing Wells.** Before plugging any well authorized for abandonment pursuant to Section 11.5, Unit Operator shall give notice to the Party or Parties owning Committed Working Interests in the tract of land upon which the well is located, which Parties, for the further purposes of this Section 11.6, shall constitute the Parties entitled to initiate and participate in a proposed Deepening or Plugging Back operation. Within ten (10) days after receipt of said notice, any such Party desiring the Deepening or Plugging Back of such well shall give notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation; and all the provisions of Subdivisions E, F, and G of Section 11.1 shall apply in the same manner as if the proposed Deepening or Plugging Back were a proposal for the Drilling of an Exploratory Well, subject, however, to the provisions of Section 11.2 and Section 11.3. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten (10) days, or if such notice is given but no party elects to proceed with the Deepening or Plugging Back of the well within the time specified therefor, Unit Operator shall plug and abandon the well for the account of the Party or Parties owning the well.

## ARTICLE 12 RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

**12.1 Use of Terms.** As used in this Article, the terms "Drilling Party" and "Non-Drilling Party" are to be understood as including "Completing Party" and "Non-Completing Party" and "Participating Party" and "Non-Participating Party", respectively, as such terms are used in Articles 8, 9, and 11.

**12.2 Scope of Article.** The rights and obligations of the Drilling Party and Non-Drilling Party with respect to any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein shall be governed by the succeeding provisions of this Article 12.

**12.3 Relinquishment of Interest by Non-Drilling Party.** When any Drilling, Deepening, Plugging Back, or Completion operation is conducted otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party, upon the commencement of such operation, shall be deemed to have relinquished to the Drilling Party, and the Drilling Party shall own, all such Non-

Drilling Party's operating rights and working interest in and to the well with respect to which such operation was conducted. In the case of a Deepening or Plugging Back operation, if a Non-Drilling Party in such operation owned an interest in the well immediately prior to the Deepening or Plugging Back, then the Drilling Party for that operation shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

**12.4 Reversion of Relinquished Interest.** If, as a result of any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein, a well is completed as a producer of unitized substances and is a Development Well or results in the establishment or enlargement of a participating area to include such well and if, by reason thereof, there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then the operating rights and working interest relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 200% of that portion of the Costs incurred in Equipping the well and in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

B. 400 % of that portion of the Costs incurred in Drilling, Deepening, Plugging Back, or Completing the well that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back operation is involved, then (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.3 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, (i) where a Plugging Back is involved, there shall be added to and deemed part of the Costs incurred in such Plugging Back the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer of unitized substances as a result of such Plugging Back, and (ii) where a Deepening is involved, there shall be added to and deemed part of the Costs incurred in such Deepening the then unrecovered portion of the Costs incurred in the initial Drilling of the well.

**12.5 Effect of Reversion.** From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis, in the ownership of the well, the operating rights and working interests therein, the materials and equipment in or pertaining to the well, the Production therefrom, and the Costs of operating the well.

**12.6 Rights and Obligations of Drilling Party.** The Drilling Party for whom a well is Drilled, Deepened, Plugged Back, or Completed shall pay and bear all Costs incurred therein and shall own the well and the materials and equipment in the well or pertaining thereto, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall own that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved and shall pay and bear (a) that portion of the Costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party and (b) all Lease Burdens that are payable with respect to that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

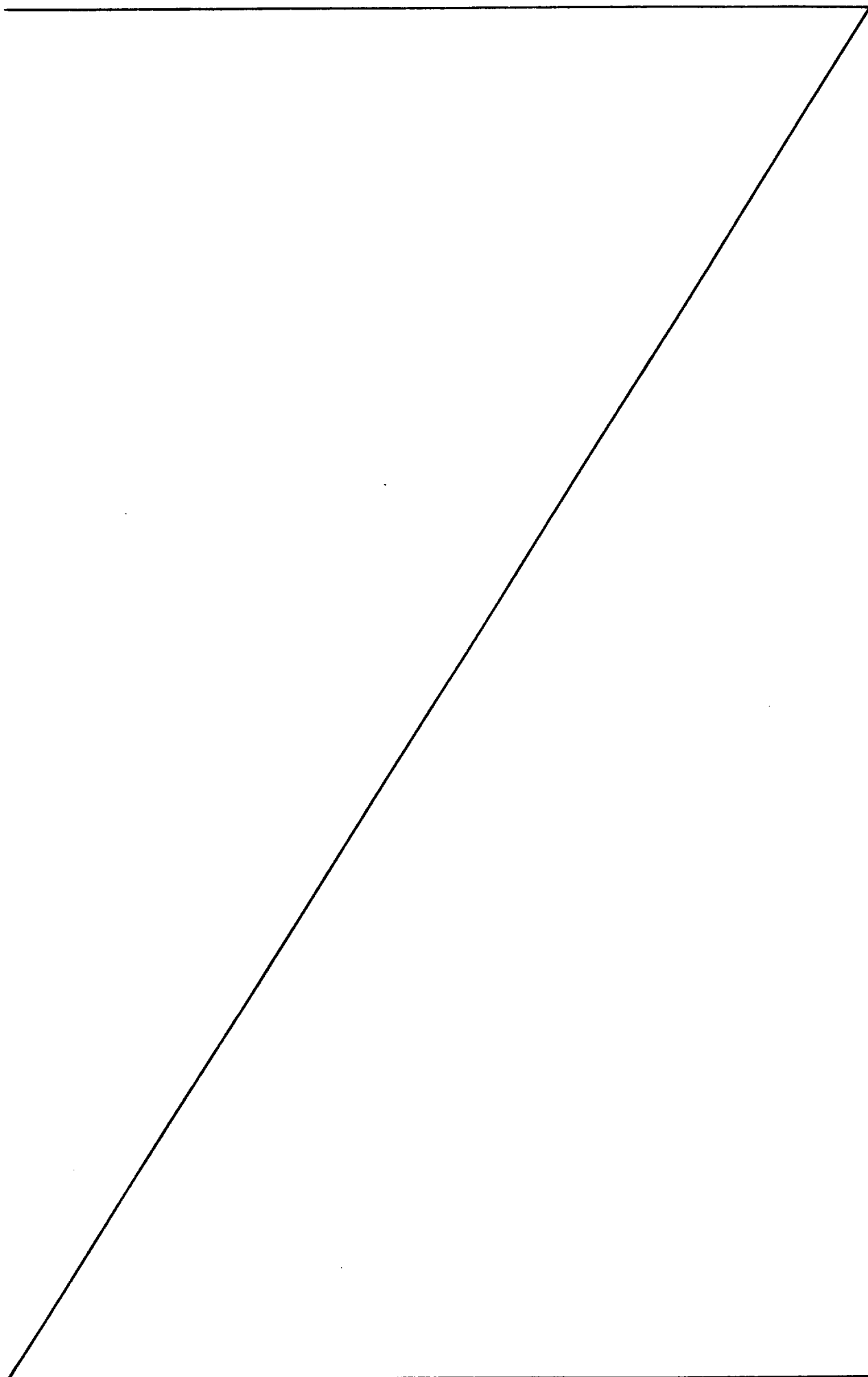
**12.7 Accounting Due Non-Drilling Party.** In the event a relinquishment of interest by a Non-Drilling Party occurs pursuant to any provision of this Agreement with respect to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party, upon its request, all information referred to in Subdivision F of Section 16.1 and, in addition, the following:

A. an itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

B. until reversion occurs, a monthly itemized statement of the Costs incurred in operating said well, the quantity of Production obtained therefrom, the proceeds received from the sale of such Production, and the Lease Burdens paid with respect thereto.

**12.8 Stand-By Rig Time.** Stand-by time for the rig on a well for the period of time allowed for the initiation of a proposal and for the response thereto shall be charged and borne as part of the Costs incurred in the operation just completed. Stand-by time subsequent to said period of time shall be charged to and borne as Costs incurred in the proposed operation, unless no Party elected to participate therein.

**12.9 Subsequently Created Lease Burdens.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest and at any time become a Non-Drilling Party with respect to any operation conducted under this Agreement, then the Drilling Party entitled to receive the share of Production to which the Non-Drilling Party would otherwise be entitled shall receive the same free and clear of any such burden, and the Non-Drilling Party who created such burden shall hold the Drilling Party harmless with respect thereto.



**ARTICLE 13**  
**ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF**  
**PARTICIPATING AREA**

**13.1 When Adjustment Made.** Whenever, in accordance with the Unit Agreement, a participating area is established, or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision, or combination being hereinafter referred to as a "resulting area"), an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision, or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area. For the purposes of this Article 13, all Costs of a usable well shall be deemed to have been incurred on the date the well was Completed.

**13.2 Definitions.** As used in this Article 13:

A. "Usable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which the resulting area was created or (2) used as a disposal well, injection well, or otherwise in connection with the production of unitized substances from such resulting area.

B. "Intangible value" of a usable well within a resulting area means the amount of those Costs incurred in Drilling, Completing, and Equipping such well, down to the deepest pool or zone for which such resulting area was created, which contribute to the production of unitized substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well was operated prior to the effective date of such resulting area:

- (1) .50 % per month for a cumulative total of 60 months, and
- (2) None % per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the production of unitized substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this Agreement.

D. "Value" of tangible property means the amount of Costs incurred in the construction or installation thereof (except installation costs properly classified as part of the intangible costs incurred in connection with a well), reduced, in the case of tangible property which is generally regarded as depreciable, at the rate of .50 % per month for each month during any part of which such well has been operated prior to the effective date of such resulting area.

**13.3 Method of Adjustment on Establishment or Enlargement.** As promptly as reasonably possible after the effective date of a resulting area created by the establishment or enlargement of a participating area, and as of such effective date, an adjustment shall be made in accordance with the following provisions, except to the extent otherwise specified in Section 13.6:

A. The intangible value of each usable well within such resulting area on the effective date thereof shall be credited to the Party or Parties owning such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of usable wells shall be charged to all Parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties owning such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of the tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or usable well which also serves another participating area or other participating areas, the value of such tangible property and usable well (including the intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value shall be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives the Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and usable well (including the intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as is the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator in such manner that an adjustment shall be made for the intangible value of usable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this Agreement; and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

**13.4 Method of Adjustment on Contraction.** As promptly as reasonably possible after the effective date of a contraction of a participating area, an adjustment shall be made with each Party owning a



Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this Section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B of this Section 13.4, and a separate adjustment for tangibles shall be made in accordance with Subdivision C of this Section 13.4.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, was delivered to such Party with respect to such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, plus (2) the total amount credited to such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section 13.4 over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for in said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section 13.4 is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against Parties who remain in the participating area after such contraction and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

**13.5 Ownership of Wells and Tangible Property.** From and after the effective date of a resulting area, all usable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment provided for shall be owned by the Parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a usable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party until reversion to such Non-Drilling Party of its relinquished interest in such well.

**13.6 Relinquished Interest of Non-Drilling Parties.** If the interest relinquished by a Non-Drilling Party in a well which is a usable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date, then insofar, but only insofar, as they relate to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party with respect to (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back, or Completed otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B of Section 13.3, with respect to its Committed Working Interests other than those referred to in (1) and (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back, or Completed for the account of all Parties entitled to participate therein exceeds the amount provided in Subdivision A of this Section 13.6 to be charged against the Drilling Party, such excess shall be applied against the reimburse-



ment to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

#### ARTICLE 14 SUPERVISION OF OPERATIONS BY PARTIES

**14.1 Right of Supervision.** Each operation conducted by Unit Operator under this Agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this Article 14 by the Parties who are chargeable with the Costs thereof.

**14.2 Voting Control.** In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided for in the Unit Agreement and except as otherwise specified in this Agreement (particular reference being made to Section 25.1, Section 27.1, and that portion of Section 11.5 relating to abandonment of producing wells outside of a participating area), the affirmative vote of Parties having 65 % or more of the voting power on any matter which is proper for action by them shall be binding upon all Parties entitled to vote thereon; provided, however, if one Party voting in the affirmative has 65 % or more but less than 75 % of the voting power, the affirmative vote of such Party shall not be binding upon the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than 35 % but less than 50% of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding upon all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any Approval or Direction provided for in this Agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding upon all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

**14.3 Meetings.** Any matter which is proper for consideration by the Parties, or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time, and a meeting shall be called by Unit Operator upon written request of any Party having voting power on any matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat notice of the time, place, and purpose of the meeting. Unit Operator's representative shall be the Chairman of such meeting.

**14.4 Action Without Meeting.** In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party notice, describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator within such period as may be designated in the notice given by Unit Operator (which period shall be not less than ten (10) nor more than thirty (30) days); provided, however, if, within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon notice, stating the tabulation and result of the vote.

**14.5 Representatives.** Promptly after execution of this Agreement, each Party, by notice to all other Parties, shall designate a representative authorized to vote for such Party and may designate an alternate authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by notice given to all other Parties, provided such notice designates a new representative or alternate representative, as the case may be.

**14.6 Audits.** Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 1.

**14.7 Extraneous Projects.** Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this Agreement.

#### ARTICLE 15 UNIT OPERATOR'S POWERS AND RIGHTS

**15.1 In General.** Subject to the limitations set forth in this Agreement, all operations authorized by the Unit Agreement and this Agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment, and any other property used in connection with any operation within the Unit Area.

**15.2 Employees.** All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone; and their working hours, rates of compensation, and all other matters relating to their employment shall be determined solely by Unit Operator.

**15.3 Non-Liability.** Unit Operator shall not be liable to any Party for anything done or omitted to be done by it in the conduct of operations hereunder, except in case of bad faith.

**15.4 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 fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, 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, 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.

**15.5 Lien.** Each of the Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment, and other property, and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. In addition to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or of any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the rate of 12 % per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

**15.6 Advances.** Unit Operator, at its election, shall have the right from time to time to demand and receive from the Parties chargeable therewith payment in advance of their respective shares of the estimated amount of Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after receipt thereof and thereafter shall bear interest at the rate of 12 % per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening, Plugging Back, or Completing operation and, notwithstanding any other provisions of this Agreement, shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for such payment by the Party or Parties chargeable therewith.

**15.7 Use of Unit Operator's Drilling Equipment.** Any Drilling, Deepening, or Plugging Back operation conducted hereunder may be conducted by Unit Operator with its own tools and equipment, provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs of such operation, except that in any case where Unit Operator alone constitutes the Drilling Party, such form shall receive the Approval of the Parties within the participating area or other designated area for such well prior to the commencement of such operation.

**15.8 Rights as Party.** As an owner of a Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not Unit Operator. In each instance where this Agreement requires or permits a Party to give notice, consent, or approval to Unit Operator, such notice, consent, or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent, or approval.

## ARTICLE 16 UNIT OPERATOR'S DUTIES

**16.1 Specific Duties.** In the conduct of operations hereunder, Unit Operator shall:

**A. Drilling of Wells.** Drill, Deepen, Plug Back, or Complete a well or wells only in accordance with the provisions of this Agreement.

**B. Compliance with Laws and Agreements.** Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether Federal, State, or local), and Directions of the Parties pursuant to this Agreement. In case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern.

**C. Consultation with Parties.** Consult freely with the Parties within the area affected by any operation hereunder and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment.

**D. Payment of Costs.** Pay all costs incurred in operations hereunder promptly as and when due and payable and keep the Committed Working Interests and all property used in connection with operations under this Agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving notice thereof to the Parties affected thereby.

**E. Records.** Keep full and accurate records of all Costs incurred and of all controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized employees or agents of the Parties at reasonable intervals during usual business hours at the office of Unit Operator.

**F. Information.** Furnish promptly to each Party chargeable with Costs of the operation involved and to each additional Party who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditures or itemizations of estimated expenditures in excess of fifteen thousand Dollars (\$15,000.00), (2) copies of all drilling reports, well logs, and State and Federal reports, (3) samples of cores and cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (4) such other and additional information or reports as may be required by Direction of the Parties within the area affected. If multiple copies of any such materials are requested by any Party, Unit Operator may charge the cost thereof directly to the requesting Party.

**G. Access to Unit Area.** Permit each Party, through its authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting materials, equipment, or other property used in connection with operations under this Agreement and to have access at reasonable times to information and data in the possession of Unit Operator concerning Unit operations.

#### 16.2 Insurance.

**A. Unit Operator's.** Unit Operator shall comply with the Workmen's Compensation Law of the State in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 3 or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties, except as above specified. Upon request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

**B. Contractors'.** Unit Operator shall require all contractors engaged in operations under this Agreement to comply with the Workmen's Compensation Law of the State in which the Unit Area is located and to maintain such other insurance as may be required by Direction of the Parties.

**C. Automotive Equipment.** In the event Automobile Public Liability insurance is specified in Exhibit 3 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Unit Operator's fully owned automotive equipment.

**16.3 Non-Discrimination.** In connection with the performance of work under this Agreement, Unit Operator agrees to comply with the provisions of Exhibit 4.

Unit Operator agrees to insert non-discrimination provisions in all subcontracts hereunder, as required by law or regulation.

**16.4 Drilling Contracts.** Each Drilling, Deepening, Plugging Back, or Completing operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7, shall be performed by a reputable drilling contractor having suitable equipment and personnel, under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid, if bids were obtained, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

**16.5 Uninsured Losses.** Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided for shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

### ARTICLE 17 LIMITATIONS ON UNIT OPERATOR

**17.1 Specific Limitations.** In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

**A. Change in Operations.** Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

**B. Limit on Expenditures.** Undertake any project reasonably estimated to require an expenditure in excess of fifteen thousand Dollars (\$15,000.00), provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Completing, or Deepening or Plugging Back operation, or to undertake any other project, in accordance with this Agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith, and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all Parties as promptly as reasonably possible.

**C. Partial Relinquishment.** Make any partial relinquishment of its rights as Unit Operator, appoint any sub-operator, or execute any Designation of Agent.

D. **Settlement of Claims.** Pay in excess of five thousand Dollars (\$5,000.00) in settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons or for loss of or damage to property.

E. **Determinations.** Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this Agreement.

## ARTICLE 18 TITLES

18.1 **Representation of Ownership.** Each Party represents to all other Parties that, to the best of its knowledge and belief, its ownership of Committed Working Interests in the Unit Area is that set out in Exhibit B to the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cause for canceling or terminating this Agreement.

### 18.2 Title Papers to be Furnished.

A. **Lease Papers.** Each Party, after executing this Agreement, shall upon request promptly furnish Unit Operator with copies of all leases, assignments, options, and other contracts which it has in its possession relating to its Committed Working Interests.

B. **Title Papers for Initial Test Well.** Promptly after the effective date of this Agreement each Party within the area described as the Title Examination Area in Exhibit 2 shall, at its own expense but without responsibility for the accuracy thereof, furnish Unit Operator with the following title materials relating to all lands within such area in which it owns Committed Working Interests:

- (1) Abstracts of title based upon the County records, certified to the current date;
- (2) All lease papers, or copies thereof, mentioned in Subdivision A of this Section 18.2 which the Party has in its possession and which have not been previously furnished to Unit Operator;
- (3) Copies of any title opinions which the Party has in its possession;
- (4) If Federal lands are involved, status reports of current date, setting forth the entries found in the BLM State Office for such lands, and also certified copies of the Serial Registers for the Federal leases involved;
- (5) If State lands are involved, status reports of current date, setting forth the entries found in the State records for such lands; and
- (6) If Indian lands are involved, status reports of current date, setting forth the entries found in the Bureau of Indian Affairs Agency Realty Office having jurisdiction over such lands and in the Bureau of Indian Affairs Land Titles and Records Office having jurisdiction over such lands.

C. **Title Papers for Subsequent Wells.** Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 2,560 acres and not including any lands within a participating area. When the Drilling of a Development Well receives the Approval of the Parties within the participating area in which it is to be Drilled, a title examination area covering lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall, at its own expense and upon request, furnish Unit Operator with the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. **Title Papers on Establishment or Enlargement of a Participating Area.** Upon the establishment or the enlargement of a participating area, each Party shall promptly furnish Unit Operator all the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 **Title Examination.** Promptly after all title materials delivered pursuant to Section 18.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties within the title examination area as soon as they are received. Each Party shall be responsible, at its expense, for curing its own titles. After a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing, within fifteen (15) days after receipt of such recommendations, of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as part of the Costs of Drilling the well for which such title examination was made.

18.4 **Option for Additional Title Examination.** Any Party who furnishes materials for title examination pursuant to Section 18.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same; and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove titles according to the provisions of this Article 18.

**18.5 Approval of Titles Prior to Drilling.** Where the Committed Working Interests within a title examination area are owned by more than one Party, no Drilling shall be conducted in such area until titles to the Committed Working Interests therein have received the Approval of the Parties as hereinafter in this Section provided. If a Drilling Block has been designated for the Drilling of a well, such well shall not be Drilled until titles to the Committed Working Interests within the title examination area established for such well have received the Approval of the Parties within the Drilling Block in which such well is to be Drilled. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If lands outside a participating area are included in the title examination area for a Development Well, such well shall not be Drilled until titles to the Committed Working Interests within such title examination area have received the Approval of the Parties therein. In the event Approval of the Parties is not obtained as in this Section 18.5 provided, the Drilling Party (whether one or more) may proceed with the Drilling of the well; but said Drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such approval to the same extent as if approval of titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have given its approval to the titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances).

**18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area.** Where the Committed Working Interests within a participating area are owned by more than one Party, no Committed Working Interest shall be included within said participating area or be entitled to participate in the Production of unitized substances from said participating area until title to such Committed Working Interest has received the Approval of the Parties within said participating area. Approval of titles to lands within a participating area shall be binding upon all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

**18.7 Failure of Title to Committed Working Interest Before Approval.** If title to a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against any and all liability on account thereof.

**18.8 Failure of Title to Committed Working Interest After Approval.** If title to a Committed Working Interest which has received the Approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block or within a Drilling Block upon which a well has been completed otherwise than as a producer of unitized substances in Paying Quantities, or if title to a Committed Working Interest which has received the Approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

A. the loss, the cost of litigation, and any ensuing liability shall be borne by the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest);

B. there shall be relinquished to the Party whose Committed Working Interest has been lost such proportionate part of each of the other Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like proportion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the Parties within such participating area or Drilling Block; and

C. the relinquished portions of said Committed Working Interests (subject to their proportionate part of the Lease Burdens attributable thereto) shall be deemed owned by the Party receiving same.

**18.9 Joinder by True Owner.** If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this Agreement or the Unit Agreement. The true owner of a Committed Working Interest, title to which has failed, may join in this Agreement or enter into a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the Approval of the Parties within the Unit Area and subject to any valid claims by the true owner.

**18.10 Title Challenge.** In the event of any suit or action challenging the title of any Party to any of the oil and gas rights committed by said Party to this Agreement and to the Unit Agreement, the Party served will immediately notify the other Parties, and the Party whose title has been challenged shall forthwith take over and be in charge of the conduct of the litigation and shall bear the entire cost of such litigation, unless the title has previously received the Approval of the Parties, in which event the provisions of Section 18.8 shall apply.

#### **ARTICLE 10 UNLEASED INTERESTS**

~~**10.1 Treated as Leased.** If a Party owns in fee all or any part of the oil and gas rights in any tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached as Exhibit 5.~~

~~**10.2 Execution of Lease.** In any provision of this Agreement where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party, each such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall~~

~~execute an oil and gas lease to such other Party in the form of Exhibit 5, which shall satisfy the requirement for an assignment or conveyance of a Committed Working Interest.~~

## ARTICLE 20 RENTALS AND LEASE BURDENS

20.1 **Rentals.** Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or with respect to its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payment, provided it has acted in good faith.

20.2 **Lease Burdens.** Each Party entitled to receive a share of Production shall be obligated for any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests, and any similar interest payable with respect to such share or the proceeds thereof; provided, however, at any time any such Party entitled to receive Production is not taking in kind or separately disposing of its share, that portion of such Production or the proceeds thereof (at the option of such Party) accruing to such Lease Burdens shall, upon request, be distributed to such Party.

20.3 **Loss of Committed Working Interest.** If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area, the provisions of Section 18.8 shall apply.

## ARTICLE 21 TAXES

21.1 **Payment.** Any and all ad valorem and severance taxes payable upon Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment, or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by unitized substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens shall be paid by Unit Operator as and when due and payable.

21.2 **Apportionment.** Taxes upon materials, equipment, and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All taxes paid by Unit Operator upon or measured by the value of Production shall be charged to and borne by the Parties owning the same in the same proportions as the assessed values of their respective portions of such Production bear to the whole thereof. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or unitized substances (as the case may be) upon which or with respect to which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 **Transfer of Interests.** In the event of a transfer by one Party to another under the provisions of this Agreement of any Committed Working Interest or of any other interest in any well or in the materials and equipment in any well, or in the event of the reversion of any relinquished interest as in this Agreement provided, the taxes above mentioned assessed against the transferred or reverted interest for the taxable period in which such transfer or reversion occurs shall be apportioned among said Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 **Notices and Returns.** Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies, or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports, and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the Parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

## ARTICLE 22 WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 **Right of Withdrawal.** If the owner of any substantial interest in a tract within the Unit Area fails or refuses to join in the Unit Agreement, then such tract may be withdrawn from the Unit Agreement, as provided in the Unit Agreement.

22.2 **Non-Withdrawal.** Should the Party or Parties having the right under the Unit Agreement to withdraw a tract from the Unit Agreement fail to exercise such right, then all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

## ARTICLE 23 COMPENSATORY ROYALTIES

23.1 **Notice.** Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give notice thereof to each Party affected by the demand.

23.2 **Demand for Failure to Drill a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a Development Well and such well is not Drilled, then Unit



Operator shall pay such compensatory royalties. Such payment shall be charged as Costs incurred in operations within the participating area involved.

**23.3 Demand for Failure to Drill a Well Other Than a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a well other than a Development Well and such well is not Drilled, then Unit Operator shall pay such compensatory royalties. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well under Subdivision B of Section 10.4.

## **ARTICLE 24 SEPARATE MEASUREMENT AND SALVAGE**

**24.1 Separate Measurement.** If a well completed as a producer of unitized substances is in or becomes included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request therefor by any interested Party, a method of measuring the Production from such well without the necessity of additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines, or other facilities for separate measurement of the unitized substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well, notwithstanding any other provisions of this Agreement.

**24.2 Salvaged Materials.** If any materials or equipment are salvaged from a well completed as a producer after being Drilled, Deepened, Plugged Back, or Completed otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Party of its relinquished interest in the well, the proceeds derived from the sale thereof or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to the Non-Drilling Party of its relinquished interest in such well.

## **ARTICLE 25 ENHANCED RECOVERY AND PRESSURE MAINTENANCE**

**25.1 Consent Required.** Unit Operator shall not undertake any program of enhanced recovery or pressure maintenance involving injection of gas, water, or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of Parties owning, on an Acreage Basis, not less than 75 % of the Committed Working Interests in the participating area affected by any such program. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 25.1, the conduct of such program shall be subject to supervision by the Parties as set forth in Article 14.

**25.2 Above-Ground Facilities.** This Agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant, or other above-ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

## **ARTICLE 26 TRANSFERS OF INTEREST**

**26.1 Sale by Unit Operator.** If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

**26.2 Assumption of Obligations.** No transfer of any Committed Working Interest shall be effective unless the same is made expressly subject to the Unit Agreement and this Agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this Agreement insofar as they relate to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

**26.3 Effective Date.** A transfer of Committed Working Interests shall not be effective as among the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.2. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued under this Agreement prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening, Plugging Back, or Completing of a well prior to such effective date shall be deemed an accrued obligation.

## **ARTICLE 27 RELEASE FROM OBLIGATIONS AND SURRENDER**

**27.1 Surrender or Release Within Participating Area.** A Committed Working Interest in land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening, Plugging Back, or Completing of a well within such participating area may be relieved of further obligations with respect to such participating area, as then constituted, by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the

entire interest of such Party in any and all wells, materials, equipment, and other property within or pertaining to such participating area.

**27.2 Procedure on Surrender or Release Outside Participating Area.** Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any participating area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties notice thereof, describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party or Parties desiring to surrender an assignment of such Committed Working Interest by giving the Party or Parties desiring to surrender notice of election so to do within thirty (30) days after receipt of notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment. If no Party elects to take such assignment within said thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same, if surrender thereof can be made in accordance with the Unit Agreement. Whenever a Party owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

**27.3 Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or Section 27.2 shall not be relieved of its liability for any obligation accrued under this Agreement at the time the assignment or surrender is made or of the obligation to bear its share of the Costs incurred in any Drilling, Deepening, Plugging Back, or Completing operation in which such Party had elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party under this Agreement and under the Unit Agreement.

## ARTICLE 28 LIABILITY

**28.1 Liability.** The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

**28.2 No Partnership Created.** It is not the intention of the Parties to create, nor shall this Agreement or the Unit Agreement be construed as creating, a mining or other partnership or association between the Parties or as rendering them liable as partners or associates.

**28.3 Election.** Each of the Parties hereby elects, under the authority of Section 761(a) of the Internal Revenue Code of 1986, to be excluded from the application of all the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986. In making this election, each Party states that income derived by it from operations under this Agreement can be adequately determined without computation of partnership taxable income. If the income tax laws of the State or States in which the Unit Area is located contain, or hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1986 above referred to under which a similar election is permitted, each of the Parties agrees that such election shall be exercised; and should the income tax laws of such State or States require evidence of such election, Unit Operator is authorized and directed to execute the same on behalf of each Party. Beginning with the first taxable year of operation under this Agreement, each Party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply, and no Party will file an application under Federal Regulations Section 1.761-2(b)(3)(i) to revoke said election.

## ARTICLE 29 NOTICES

**29.1 Giving and Receipt.** Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

**29.2 Addresses.** For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

## ARTICLE 30 EXECUTION

**30.1 Counterparts.** This Agreement may be executed in counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

**30.2 Ratification.** This Agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this Agreement. Such ratification shall have the same effect as if the Party executing it had executed this Agreement or a counterpart hereof.



**30.3 Effect of Signature.** When this Agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other, and each Party theretofore or thereafter executing this Agreement shall thereupon become and remain bound hereby until the termination of this Agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this Agreement, then, at the expiration of said period, this Agreement shall terminate.

### **ARTICLE 31 SUCCESSORS AND ASSIGNS**

**31.1 Covenants.** This Agreement shall be binding upon and shall inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns, and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute covenants running with the lands and the Committed Working Interests of the Parties.

### **ARTICLE 32 HEADINGS FOR CONVENIENCE**

**32.1 Headings.** The Table of Contents and the headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

### **ARTICLE 33 RIGHT OF APPEAL**

**33.1 Not Waived.** Nothing contained in this Agreement shall be deemed to constitute a waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether Federal, State, or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

### **ARTICLE 34 SUBSEQUENT JOINDER**

**34.1 Prior to the Commencement of Operations.** Prior to the commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have joined the Unit Agreement shall be privileged to execute or ratify this Agreement.

**34.2 After Commencement of Operations.** After commencement of operations under the Unit Agreement, any working interest in land within the Unit Area which is not then committed hereto may be committed to this Agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

### **ARTICLE 35 CARRIED INTERESTS**

**35.1 Treatment of.** If any working interest shown on Exhibit B to the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying Party executes this Agreement, be deemed to be, for the purpose of this Agreement, a Committed Working Interest owned by the carrying Party.

### **ARTICLE 36 EFFECTIVE DATE AND TERM**

**36.1 Effective Date and Term.** This Agreement shall become effective upon the effective date of the Unit Agreement, shall continue in effect during the term of the Unit Agreement, and shall terminate concurrently therewith.

**36.2 Effect of Termination.** Termination of this Agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this Agreement, the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties has been made. Termination of this Agreement shall automatically terminate all rights and interests acquired by virtue of this Agreement in lands within the Unit Area, except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

ARTICLE 37  
OTHER PROVISIONS

37.1 PAYMENT OF TAXES RELATING TO PRODUCTION.

- A. At and during such time, or times, as Non-Operator is exercising the right to take in kind or separately dispose of its proportionate part of the production as set forth in Paragraph 6.4 hereof, Non-Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.
- B. At and during such time, or times, as Unit Operator is selling Non-Operator's proportionate part of the production, as set forth in Paragraph 6.5 hereof, Unit Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.

37.2 NON-CONSENT INVESTMENT ADJUSTMENT. Notwithstanding any provision in this Agreement to the contrary, no Party shall be liable, without its consent, for any investment adjustment charge under the provisions of Section 13.3D or 13.4D, which charge is in excess of the Party's credits under Article 13. In the event of the establishment, enlargement or contraction of a Participating Area, the provisions of Article 12, and other provisions related thereto, shall be applicable to any investment adjustment to the same extent that these provisions are applicable to a well drilled otherwise than for the account of all Parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If, within 30 days after proposal for establishment, enlargement or contraction of a Participating Area has been submitted by Unit Operator in writing to the Working Interest Owners involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement or contraction, that Party shall be a Non-Drilling Party, and shall be deemed, as of the effective date of the resulting area in connection with which such charge is made, to have relinquished the interest for which such charge is made to the Party, or Parties, who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which latter Party, or Parties, shall be the Drilling Party with respect to this relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12, except that it is specifically understood that the Article 12.4B percentage for exercise of the Non-Drilling Option applicable to establishment, enlargement or contraction of the Participating Area be 400%.

37.3 NON JOINING ROYALTY INTERESTS. Should the owner of a royalty interest fail or refuse to execute or become bound by the Unit Agreement and, as a result thereof, the Lease Burdens of the Party entitled to receive the production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall reimburse that Party for the full amount of such excess Lease Burdens and shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to Unit Operator for distribution to all Parties.

37.4 EXISTING WELL PROVISION: The following wells have been drilled and completed as oil and/or gas wells prior to the effective date hereof:

<u>Well Name</u>	<u>Location</u>
------------------	-----------------

SEE TABLE 1

In the event said wells are included in a participating area under the Ceja Pelon (Shallow) Unit Agreement, the working interest of the parties in the lands covered by the drillsite lease which are included in a participating area as the result of said wells shall not ascribe to, nor merge with, the working interest of the parties hereto in other lands within the participating area. There shall never be any adjustment or readjustment of

costs by virtue of, or by reason of, the establishment, revision, consolidation or enlargement of a participating area under the Operating Agreement in relation to said wells.

37.5 PRIOR OPERATING AGREEMENT: This Unit Operating Agreement shall be deemed to supersede and replace all prior Operating Agreements which may be in effect between the Parties hereto.

37.6 CASH CALL: Notwithstanding anything to the contrary contained herein, if a proposal is made pursuant hereto for the drilling, sidetracking, deepening, or re-completion of any well, any Party electing to participate in the proposed operation shall within 15 days after request by Unit Operator (which request shall not be made more than 60 days prior to the proposed commencement date of such operation) either (1) advance its portion of the estimated costs of such operation, or (2) furnish Unit Operator a letter of credit from a bank acceptable to Unit Operator containing terms acceptable to Unit Operator obligating the Bank to pay such Party's portion of the estimated costs of such operation. The failure of a Party either to advance its share of such costs, furnish such letter of credit, or to make other satisfactory credit arrangements within 15 days after request from Unit Operator shall, at the option of Unit Operator, constitute a withdrawal by the Party of its prior election to participate in the proposed operation and an election by such Party to become a Non-Consenting Party with respect to such operation. The provisions of this Article 37.6 shall be in addition and not in lieu of other provisions of the Operating Agreement. The rights and obligations as between Unit Operator and other Parties hereto who participate in the proposed operation shall not be affected for reason of Unit Operator's failure to require any other Party to make advance payment, furnish a letter of credit, or make other satisfactory credit arrangements.

Table 1. Summary of wells drilled in the proposed Ceja Pelon Unit

Operator / Well Name (date drilled)		Legal Location	Total Depth Drilled (formation)	Zone Completed	Treatment	Well Status	Cumulative Production as of 06/92
1.	Gary-Williams San Isidro 6-13 (02/85)	SWSW Sec. 6 T20N, R3W	4893' (Tocito)	4049'-4893' (Openhole) Mancos A-Tocito	Natural	Suspended 12/86	IP'd @ 6 BO, 30 Mcf/gd well never produced.
2.	Lauritsen Federal 8-21-2#1 (05/79)	NESE Sec. 8 T21N, R2W	6495' (Dakota)	None	None	D & A	N/A
3.	B.M.G. Federal 15-21-2#1 (12/78)	SESE Sec. 15 T21N, R2W	6369' (Dakota)	6010'-6122' (Greenhorn)	Frac w/70 gal qual foam 7000 gal frac fluid, 15,000# 20/40 sd.	D & A	N/A
4.	Gary-Williams Chijulla 22-13 (06/81)	SWSW Sec. 22 T21N, R2W	5505' (Mancos D)	5198'-5250' (Mancos B)	Frac w/65,000 gal KCl 600 scf/bbl CO <sub>2</sub> , 77,500# 20/40 sd, 21,000# 10/20 sd.	Suspended (11/91)	4570 BO, 331 Mcfg, 314 BW (11/91)
5.	Gary-Williams Chijulla 28-15 (10/84)	SWE Sec. 28 T21N, R2W	5549' (Semilla)	4716'-5071' (Mancos B, C, D,)	Frac w/757 bbl foamed diesel, 81,000# 20/40 sd.	Shut-in (7/92)	4930 BO, 3954 Mcfg, 312 BW (11/91)
6.	Michael Grace El Ojo #1 (02/74)	NWNW Sec. 24 T21N, R3W	2235' (Lewis)	None	None	D & A	N/A
7.	Guadalupe Exploration Taylor Gov't #1 (12/72)	MENE Sec. 26 T21N, R3W	6315' (Morrison)	5782'-5804' (Lower Mancos)	Acidize with 1000 gals 15% HCl	Abandoned	285 BO
8.	Gary-Williams Taylor #28-4 (10/81)	NWNW Sec. 28 T21N, R3W	4460' (Mancos A)	4460'-4760' (openhole) (Mancos A)	Frac w/111,500 gal KCl 1,060,600 scf CO <sub>2</sub> , 800 sx 20/40 sd., 180 sx 10/20 sd.	Suspended	2815 BO, 3272 Mcfg, 117 BW

	Operator /		Total Depth		Zone	Treatment	Well		Cumulative
	Well Name	Legal	Drilled	(formation)			Status	Production	
	(date drilled)	Location	(formation)	Completed				as of 04/92	
9.	Gary-Williams Taylor #29-9 (05/84)	NESE Sec. 29 T21N, R3W	5800' (Dakota)	4786'-4970' (Mancos C-D)	Frac w/88 bbl. diesel, 38,000 gal foam diesel 30,000# 20/40, 32,500# 10/20 sd.	SI (08/85)		2180 BO, 1331 Mcfg	
10.	Gary-Williams Taylor #29-13 (05/81)	SMSW Sec. 29 T21N, R3W	4562' (Mancos A)	4507'-4562' (openhole) (Mancos A)	Natural	Producing		49,836 BO, 59,447 Mcfg, 849 BW	
11.	Gary-Williams Taylor #30-8 (10/81)	SENE Sec. 30 T21N, R3W	4833' (Mancos B)	4530'-4833' (openhole) (Mancos A-B)	Frac w/1880 Bbl KCl 900,000 scf, CO <sub>2</sub> , 96,000# 20/40 sd., 12,000# 10/20 sd.	SI (08/89)		3945 BO, 6091 Mcfg, 380 BW	
12.	Gary-Williams Taylor #30-15 (07/81)	SWSE Sec. 30 T21N, R3W	5000' (Mancos C)	4640'-4684' (Mancos A)	Frac w/65,500 gal gel, 400 scf/bbl CO <sub>2</sub> , 77,500# 20/40 sd., 21,000# 10/20 sd.	Producing		27,865 BO, 12,757 Mcfg, 1813 BW	
13.	Gary-Williams Taylor 31-1 (05/85)	NENE Sec. 31 T21N, R3W	5600' (Semilla)	4199'-5600' (openhole) (Mancos A-Semilla)	Natural	Suspended (05/87)		IP'd @ 14 BO, 100 Mcf, 24 BWPD well never produced	
14.	Gary-Williams Taylor 32-6 (06/84)	SENW Sec. 32 T21N, R3W	5530' (Greenhorn)	4492'-4794' (Mancos A-D)	Frac w/949 BO, 127 gal foam, 2,235,000 scf N <sub>2</sub> 115,000# 20/40 sd., 50,000# 10/20 sd.	Producing		9461 BO, 17,808 Mcfg, 348 BW	
15.	Dugan Husky Federal #2 (11/83)	NWNW Sec. 25 T21N, R4W	5307' (Tocito)	4787'-5215' (Mancos B, C, D)	Frac w/70,000 gal gelled wtr, 89,500# 20/40 sd., 80 bbl 8-5 breaker, 370# Aqua seal 80 gal Aqua flow.	Producing		2548 BO, 8695 Mcfg 1019 BW (11/91)	

Operator / Well Name (date drilled)	Legal Location	Total Depth Drilled (formation)	Zone Completed	Treatment	Well Status	Cumulative Production as of 04/92
16. Gary-Williams Ceja Pelon #25-2 (08/84)	MMNE Sec. 25 T21N, R4W	5600' (Semilla)	5013'-5150' (Mancos B, C)	Frac w/64,186 gal foamed diesel, 49,000# 20/40 sd. 41,250# 10/20 sd.	Shut-in (02/92)	10,450 BO, 14,253 Mcfg 18 BW (11/91)
17. Gary-Williams Ceja Pelon 36-D (09/83)	SESE Sec. 36 T21N, R4W	4950' (Tocito)	4734'-4764' (Mancos C, D)	Frac w/273 bbl diesel, 676,424 scf N <sub>2</sub> , 31,700# 20/40 sd., 25,000# 10/20 sd.	Shut-in (10/92)	18,844 BO, 38,021 Mcfg 267 BW (11/91)

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

THE GARY-WILLIAMS COMPANY

By \_\_\_\_\_

Address: Suite 1925  
1775 Sherman St.  
Denver, CO 80203

Date of Execution  
\_\_\_\_\_

Telephone: (303) 831-4673

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss.

The foregoing instrument was acknowledged before me by \_\_\_\_\_  
\_\_\_\_\_, as \_\_\_\_\_  
of The Gary-Williams Company.

This \_\_\_\_ day of \_\_\_\_\_, 19\_\_.

WITNESS my hand and official seal.

My Commission Expires:

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

SIGNATURE PAGE FOR THE  
CEJA PELON UNIT OPERATING AGREEMENT  
SANDOVAL COUNTY, NEW MEXICO

EXHIBIT " 1 "

Attached to and made a part of the Unit Operating Agreement for the  
Ceja Pelon Unit Area, Sandoval County, New Mexico

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 all operations necessary or proper for the development, operation, protection and maintenance 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 which 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.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

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

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

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

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at the Chase Manhattan Bank, N.A. on the first day of the month in which delinquency occurs plus 1% 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.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.



## 5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. 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 Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

### 2. Rentals and Royalties

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

### 3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

### 5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

### 6. Transportation

Transportation of employees 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 reliable 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 Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store 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 belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

## 7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

## 8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

## 9. Damages and Losses to Joint Property

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

## 10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

## 11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

## 12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

## 13. Abandonment and Reclamation

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

## 14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

## 15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

### III. OVERHEAD

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

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(~~XX~~) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or  
 (~~XX~~) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

(~~XX~~) shall be covered by the overhead rates, or  
 ( ) shall not be covered by the overhead rates.

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 500.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

##### (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

##### (b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
  - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
  - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
  - (4) 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 drilling well rate applies.
  - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

#### B. Overhead - Percentage Basis

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

## (a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

## (b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which 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:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

**2. Overhead - Major Construction**

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

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

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

**3. Catastrophe Overhead**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

**4. Amendment of Rates**

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

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

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

**1. Purchases**

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

**2. Transfers and Dispositions**

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

## A. New Material (Condition A)

### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

### (2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

## B. Good Used Material (Condition B)

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

### (1) Material moved to the Joint Property

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

### (2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

### (3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

## C. Other Used Material

### (1) Condition C

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

## (2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

## (3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

## D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

## E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

## 3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the 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 billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

## 4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

## 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

## 2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

## 3. Special Inventories

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

## 4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "2"

Initial Test Well

Attached to and made a part of the  
Unit Operating Agreement  
for the  
Ceja Pelon Unit Area  
Sandoval County, New Mexico

1. LOCATION: The initial test well shall be drilled at a location selected by Unit Operator and approved by the Authorized Officer of the Bureau of Land Management.
2. DEPTH: The initial test well shall be drilled conformably with the terms of Article 9 of the Ceja Pelon Unit Agreement.
3. COSTS: All costs and expenses incurred in connection with the initial test well, including drilling, testing and completing into the tanks, if an oil well, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by The Gary-Williams Company and such other parties hereto as agreed to bear such costs in accordance with separate agreement among themselves and where applicable subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received toward the drilling of the initial test well shall belong to the parties sustaining the risk of drilling the initial test well.
4. TITLE EXAMINATION AREA: The title examination area for the initial test well shall be an area surrounding the location of such well as may be designated by the Unit Operator.
5. COST OF TITLE EXAMINATION: The cost of title examination shall be charged as a cost of drilling the initial test well.
6. DEEPENING, PLUGGING BACK: In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Well shall be governed by the provisions of Section 9.3 to this agreement.

EXHIBIT "3"

INSURANCE

Attached to and made a part of the  
Unit Operating Agreement  
for the  
Ceja Pelon Unit Area  
Sandoval County, New Mexico

As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto Worker's Compensation and Employer's Liability Insurance as required by the laws of the state in which such operations are conducted. If, under the laws of said state, Operator is authorized to be self insurer under such laws, and in such event, Operator shall charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent limited to amounts determined by applying manual insurance rates to Operator's payroll.

Operator shall not be required to carry any other insurance for the joint account. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third parties or damage to or destruction of property of third parties resulting from operations conducted hereunder shall be borne by the parties hereto in the proportions in which they bore the costs of such operations. Operator shall not be liable to Non-Operator for damage to or from loss or destruction of jointly owned property from operations hereunder unless such damage, loss or destruction arises solely out of willful misconduct or gross negligence of Operator. Each party individually may acquire such insurance as it deems proper to protect itself against third party claims or damages to joint property, and such insurance shall inure solely to the benefit of the party procuring same; provided, however, that each such insurance policy shall contain a waiver on the part of the insurance carrier of all rights, by subrogation or otherwise, against all other parties hereto.



EXHIBIT "4"

Attached to and made a part of the  
Unit Operating Agreement  
for the  
Ceja Pelon Unit Area  
Sandoval County, New Mexico

EXECUTIVE ORDER NO. 11246 AND EXECUTIVE ORDER NO. 1158  
PROVISIONS OF SECTION 202 OF EXECUTIVE ORDER NO. 11246

(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 the 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, advertising the labor union or workers' representative of the contractors' 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 No. 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 contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the 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 Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provision 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 non-compliance; 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.

EXHIBIT "6"

Attached to and made a part of the Unit Operating Agreement  
for the Ceja Pelon Unit Area, Sandoval County,  
New Mexico

GAS BALANCING AGREEMENT

THIS AGREEMENT is made by and between Operator and Non-Operator as identified in the Operating Agreement and effective as of its effective date. Each such party, including the Operator, being referred to herein as a "Party", and all such parties being referred to collectively herein as the "Parties".

W I T N E S S E T H

WHEREAS, the Parties are parties to the above mentioned Operating Agreement, hereinafter the "Operating Agreement", covering the land and leases described therein, as the same may be amended from time to time, hereinafter referred to as the "Contract Area"; and

WHEREAS, pursuant to the Operating Agreement, each Party has the right to take in kind or separately dispose of a share of the gas production from the Contract Area equal to its participating interest in the Contract Area under the Operating Agreement; and

WHEREAS, imbalances may occur from time to time in the taking or separate disposition of gas production; and

WHEREAS, the Parties agree to the method of balancing and accounting for such imbalances set forth hereinbelow.

NOW, THEREFORE, for and in consideration of the premises, and the promises and covenants of the Parties to be kept and performed hereunder, it is understood and agreed as follows:

ARTICLE I

Definitions

1.01 For the purposes of this Agreement, the terms set forth below shall have the meanings herein ascribed to them.

(a) "Balance" is the condition existing when a Party has disposed of a cumulative volume of Gas from a Reservoir which is equal to such Party's Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Reservoir. For purposes of balancing, references herein to price, value and volume shall be adjusted or calculated on a Btu basis.

(b) "Btu" is one British thermal unit, which is the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit, from 58.5° Fahrenheit to 59.5° Fahrenheit, at 14.73 pounds per square inch absolute. The term "MMBtu" refers to one million (1,000,000) Btu's.

(c) "FERC" refers to the Federal Energy Regulatory Commission, or any similar or successor agency, state or federal.

(d) "Gas" includes all hydrocarbons produced or producible 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 available at the Measurement Point for sale or separate disposition by the Parties, excluding oil, condensate and other liquids separated upstream from the Measurement Point. "Gas" does not include gas used for joint operations, or gas which is vented or lost, prior to delivery at the Measurement Point. References

herein to the right to "dispose of" Gas or Gas "disposed of" includes all methods of disposition of Gas, including taking in kind, delivering in kind to a Lessor, sales to a party or third party or an affiliate, or gas used by a Party for purposes other than joint operations.

(e) "Imbalance" refers to either the Overproduction of an Overproduced Party or the Underproduction of an Underproduced Party, as applicable.

(f) "Make-up Gas" refers to that incremental volume of Gas, up to but not exceeding twenty-five percent (25%) of the percentage ownership of an Overproduced Party in the Gas which can be produced from a Reservoir at the combined MER of all wells completed in that Reservoir, which an Underproduced Party is entitled to dispose of in accordance with this Agreement in order to make up its Imbalance.

(g) "Measurement Point" refers to the outlet side of the jointly owned production facilities, or such other mutually agreeable point where Gas from a Reservoir is measured after the separation of oil, condensate or other liquids.

(h) "MER" refers to the maximum efficient rate at which a well can be produced for a sustained period of time without resulting in a underground waste in the form of reduced ultimate recovery of hydrocarbons, or such lesser rate of production, from time to time, which results from allowables being set for such well by the regulatory agency having jurisdiction in such matters, or due to the limited capacity of jointly owned production facilities, or due to the temporary inability of a well to produce.

(i) "Operator" refers to Operator hereunder or to its successor, as designated under the terms of the Operating Agreement.

(j) "Overproduced" is the condition existing when a Party has disposed of a greater cumulative volume of Gas from a Reservoir than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Reservoir.

(k) "Paying Quantities" means production of oil or gas in sufficient quantities to yield a profit to the working interest owners, after deducting the Lessor's royalty, any overriding royalties and similar burdens, overhead and related charges calculated under the Operating Agreement, and windfall profits, severance and similar taxes on production.

(l) The "Percentage Ownership" of each Party is equal to that Party's percentage or fractional interest in the Reservoir, as determined under the terms of the Operating Agreement.

(m) The term "Reservoir" means each separate and distinct pool or accumulation of oil or gas or both which is not connected or in communication with any other pool or accumulation of oil or gas.

(n) "Underproduced" is the condition existing when a Party has disposed of a lesser cumulative volume of Gas than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties.

(o) The terms "Underproduction" and "Overproduction" refer to that lesser or greater incremental volume of Gas which a Party would have disposed of from a Reservoir, on a monthly or cumulative basis, if it had disposed of its Percentage Ownership of Gas.

1.02 Unless the content clearly indicates to the contrary, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes masculine and the feminine.

## ARTICLE II

### Scope and Term of Agreement

2.01 This Agreement establishes a separate gas balancing agreement as to each well subject to the Operating Agreement and, if a well should produce Gas from more than one Reservoir, as a separate agreement as to each such Reservoir in the Contract Area from which such well produces Gas to the same extent as if a separate Gas Balancing Agreement had been executed for each such well and each such Reservoir.

2.02 This Agreement shall terminate the earlier of the day when the oil and gas lease(s) from which Gas from a well is being produced terminate or when production permanently ceases and the respective Gas account therefor is brought into Balance pursuant to this Agreement.

2.03 As used in this Agreement, production "permanently ceases" when (a) a well ceases to produce in Paying Quantities from a Reservoir and (b) one hundred twenty (120) days elapses without the commencement of operations in that well to restore production in Paying Quantities from that Reservoir.

2.04 In the event this Agreement terminates pursuant to Paragraph 2.02 hereof, and thereafter production in Paying Quantities is restored and is governed by the Operating Agreement, then this Agreement shall again apply.

## ARTICLE III

### Right to Produce and Ownership of Gas

3.01 Subject to the rights of an Underproduced Party to produce and dispose of Make-up Gas pursuant to this Agreement, each Party shall be entitled to produce and dispose of its Percentage Ownership of Gas which can be produced from a Reservoir at the MER of each well completed in such Reservoir. During any month when a Party does not dispose of its entire Percentage Ownership of such Gas, the other Parties shall be entitled to produce and dispose of all or any portion of such Gas, provided, that is more than one Party desires to dispose of such Gas and such Parties desire to dispose of more Gas than is available, then, they shall share in such Gas in the proportion that each such Party's Percentage Ownership bears to the combined Percentage Ownership of all such Parties; and, provided, that no Party shall be entitled to produce and dispose of more than three hundred percent (300%) of its Percentage Ownership of Gas which can be produced during that month at the MER of each Reservoir from which the well is producing.

3.02 As between the Parties hereto each Party shall own and be entitled to the Gas disposed of by such Party for its sole account, and the proceeds thereof, including constituents contained therein that are recovered downstream from the Measurement Point. If at any time, and from time to time, a Party is Underproduced, its Underproduction shall be deemed to be in storage, subject to the right of such Party to produce and dispose of such Gas at a later time.

## ARTICLE IV

### Make-Up Gas

4.01 In order to make up an Imbalance, each Underproduced Party shall have the right, during the next month following ten (10) days written notice to the Operator and the Overproduced Parties, to produce and dispose of Make-up Gas, subject to the following rules:

- (a) An overproduced Party shall not be required to furnish Make-Up Gas unless the Underproduced Party is disposing of all other

Gas from the Reservoir which can be produced at the combined MER of all wells in the Contract Area completed in that Reservoir;

(b) An Overproduced Party shall not be required to refund its takes to less than seventy-five percent (75%) of such Overproduced Party's Percentage Ownership of Gas;

(c) If there is more than one Overproduced Party, the Make-up Gas will be taken from the Overproduced Parties in the proportion that each overproduced Party's overproduction bears to the total Overproduction of all overproduced Parties which proportions shall be determined as of the last day of the most recently completed month for which relevant accounting reports are available; and

(d) If there is more than one Underproduced Party who desires and is able to dispose of Make-up Gas that month, each underproduced Party will share in the Make-up Gas in the proportion which its Percentage Ownership bears to the total percentage ownership of all underproduced Parties desiring to take or market such Make-up Gas.

4.02 The provisions of this Article IV shall constitute an Underproduced Party's exclusive rights and an Overproduced Party's exclusive obligations with regard to the right of an Underproduced Party to require an Overproduced Party to furnish Make-up Gas.

4.03 Nothing herein shall be construed to deny any Party the right from time to time to have Gas produced at the MER of a particular well or at the combined MER of all wells completed in the Reservoir for a period not to exceed ten (10) days for the purpose of conducting deliverability tests pursuant to its gas purchase contracts.

## ARTICLE V

### Balancing of Gas Accounts

5.01 The Operator shall have the duty of controlling production and deliveries of Gas and the responsibility of administering the provisions of this Agreement. The Operator shall use its best efforts to cause Gas to be delivered at the Measurement Point in such manner and at such rates as may be requested, from time to time, to give effect to the intent that any imbalances shall be brought into Balance in accordance with the provisions hereof.

5.02 The Operator will maintain a separate Gas account for each Party. Each month, the Operator will furnish each Party a monthly report showing the total quantity of gas produced, the quantity used in joint operations, or which was vented or lost, the quantity of Gas disposed of by each Party, each Party's Overproduction or Underproduction for that month, and the cumulative Imbalance of all Parties. In the event that production from each Reservoir is not separately measured, then the Operator will allocate production to each Reservoir on the basis of periodic tests or such other methods as are commonly used and accepted in the industry. Each month during which an Overproduced Party takes or markets less than its Percentage Ownership of the total volume of Gas taken or marketed that month by all Parties, that Overproduced Party's Underproduction for that month shall be credited against and offset the earliest overproduction then attributed to such Party.

5.03 Each Party shall retain all data, information and records pertaining to the Gas produced and the Gas disposed of by such Party, including, but not limited to, records pertaining to the volumes of Gas disposed of, the gross and net proceeds received from the disposition of Gas, and the information utilized to adjust volumes and prices on a Btu basis, for a period expiring three (3) years after the termination of this Agreement.

5.04 During the term of this Agreement, each Party shall have the right to audit the records of the Operator and any other party as to all matters concerning volumes, Btu adjustments, and disposition of Gas produced, such audit rights shall not permit the auditing party to require disclosure of the prices received for Gas. The audit rights shall extend until three (3) years after the expiration of this Agreement, and, during any period when the Gas accounts are being brought into Balance by payment of cash in accordance with Article VI below, such audit rights shall extend to the price received by an Overproduced Party which is attributable to the Underproduction of any Underproduced Party receiving a cash settlement. 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. If more than one Party desires to audit the records of another party, then all such parties shall cooperate with each other in order that only one audit shall be conducted in any twelve month period.

## ARTICLE VI

### Cash Settlement of Imbalances

6.01 When production in Paying Quantities permanently ceases, the Operator shall render its final account of the cumulative Imbalance of all Parties. At the request of Operator each Party shall promptly, and in no event later than thirty (30) days after Operator's request, provide information to Operator sufficient for the preparation of statements. Within sixty (60) days after the rendering of such final account, each Overproduced Party shall pay to Operator for distribution to each Underproduced Party an amount equal to the price per MMBtu actually or constructively received for Overproduction at the time such overproduction accrued, less taxes and royalties, overriding royalties and similar encumbrances attributable to such overproduction actually paid to or on behalf of the Underproduced Party. Operator, although not accountable for failure to collect such amounts, shall distribute the amounts received to each Underproduced Party in the proportion that its Underproduction bears to the Underproduction of all underproduced Parties with adjustments as provided in the preceding sentence. To the exclusion of any remedy against Operator, the Underproduced Parties shall have the primary responsibility to compel the Overproduced Parties to make payments, although the Operator may elect to do so and shall be indemnified in such event from all liabilities, costs, and expenses (including reasonable attorney's fees) by the Underproduced Parties.

6.02 The price basis for said cash settlements shall be determined on a day-to-day basis in accordance with whichever of the following should be applicable:

(a) For Gas disposed of under an arm's length contract, the price basis for settlements under this Article shall be the price at the Measurement Point actually received by the Overproduced Party for the sale at the time the Overproduction accrued.

(b) If a portion of an Overproduced Party's Gas was taken for its own use or sold under a non-arm's length contract, and a portion thereof sold under an arm's length contract, then the price to be used for the cash settlement will be the higher of the price received by the Overproduced Party under the arm's length contract or under the non-arm's length contract at the time the Overproduction accrued. During any period when an overproduced Party is taking Gas for its own use or selling Gas under a non-arm's length contract, and making no sales under an arm's length contract, the price to be used for the cash settlement will be (i) the higher of the price received under the non-arm's length contract or the weighted average price at the Measurement Point received by all other Parties for Gas sold at the time the overproduction accrued under arm's length contracts, or (ii) if there were no such sales, then the higher of the price received under the non-arm's length contract or the simple aver-

age of gas prices from the same month when the Over-production accrued as published by Natural Gas Clearinghouse. Should Natural Gas Clearinghouse cease to publish prices, then that alternative price shall become the price at the Measurement Point the Underproduced Party could have received under a new arm's length sales contract entered into in the same month when the Over-production accrued. In any instance when the price is determined by reference to concurrent sales between other parties, or reference to Natural Gas Clearinghouse prices, or the price which would have been received, such price will be considered to have been constructively received by the Overproduced Party for the purposes of this Agreement.

6.03 If any portion of the price which is to be paid to the Underproduced Party is subject to refund under order of the FERC, or any similar or successor agency, state or federal, then the Overproduced Party shall withhold the increment of price subject to refund until the price is fully approved, unless the Underproduced Party furnishes a corporate undertaking satisfactory to the Overproduced Party guaranteeing the return of the increment in price attributable to such refund, including interest, if any, which is required to be paid with such refund. In addition, if FERC or any other governmental agency having jurisdiction requires that an overproduced party make a refund with the respect to any portion of a price used to make payment under this Article VI, then the Underproduced Party shall reimburse the Overproduced Party for such refund, including any interest required to be paid with respect thereto. This Paragraph 6.03 shall survive the termination of this Agreement until the period has passed for which a refund may be required.

## ARTICLE VII

### Costs and Ownership of Liquids

All operating risks, expenses and liabilities shall be borne and paid by the Parties in accordance with the provisions of the Operating Agreement, regardless of whether the Gas is being disposed of at any given time in proportion to the Percentage Ownership of all Parties. Liquid hydrocarbons separated from the Gas prior to delivery at the Measurement Point shall be owned by all Parties in accordance with their Percentage Ownership, and each of the Parties shall be entitled to own and market the liquid hydrocarbons separated prior to delivery at the Measurement Point in accordance with its Percentage Ownership, irrespective of the fact that one or more of the Parties may not be disposing of Gas.

## ARTICLE VIII

### Indemnity

Each Party hereby indemnifies and agrees to hold the other Parties harmless from all claims which may be asserted by any third party who now or hereafter stands in a contractual relationship with the indemnifying Party arising out of the operation of this Agreement and the performance by the indemnifying Party of its obligations hereunder. Such indemnity shall extend to and include all costs of investigation and defense (including reasonable attorney's fees), and all judgements and damages incurred or sustained, as a result of any such claim. The Operator shall only be liable for its failure to comply with the terms of this Agreement if such failure is a result of its gross negligence or willful misconduct.

## ARTICLE IX

### Payment of Lease Burdens

Each Party disposing of Gas shall be responsible for and shall pay or cause to be paid all royalties, overriding royalties and similar burdens which are shared jointly by all Parties. All lease-

hold burdens which are not shared jointly by all Parties shall be paid when due by the Party creating such burdens. At its option, an Overproducing Party may, in lieu of making payment to the owner of the joint burdens, pay or cause to be paid to the Underproducing Party an amount sufficient to timely pay its share of the jointly owned burdens, based on the price actually or constructively (as hereinabove defined) received by the Overproducing Party.

## ARTICLE X

### Production Taxes

Each Party disposing of Gas shall pay or cause to be paid any and all production, severance or similar taxes, fees or levies due and payable on such Gas.

## ARTICLE XI

### Notices

Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed given only when received by the Party to whom the same is directed at the address set forth in the Operating Agreement.

## ARTICLE XII

### Binding Effect

12.1 This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

12.2 Any transfer of an interest by a Party, including future interests or contractual rights, shall not be effective unless such transfer is expressly made subject to this Agreement and the transferee first agrees in writing to assume and perform all obligations of the transferor under this Agreement, insofar as such obligations relate to the transferred interest. Any Overproduced Party who assigns an interest shall remain jointly and severally liable with its transferee for any Imbalance which accrued prior to the receipt by the Underproduced Party of the ratification of this Agreement by the transferee. The Overproduced Party may be relieved of such joint and several liability by offering in writing to immediately cash settle with each Underproduced Party for such Imbalance pursuant to the provisions of Article VI and by making payment of the settlements requested under the following procedure. Upon receipt of such written offer, each Underproduced Party shall notify the Overproduced Party within thirty (30) days in writing whether it will (a) accept the cash settlement, or (b) release the Overproduced Party from its joint and several liability for the accrued Imbalance. Failure to timely respond to such written offer shall constitute an election by the Underproduced Party to receive an immediate cash settlement. If the transfer is to one or more Parties to this Agreement and is a result of an Underproduced Party withdrawing from the Operating Agreement, such Underproduced Party shall retain its rights, as of the effective date of transfer, to a cash settlement in accordance with the provisions of this Agreement.



BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF THE GARY-WILLIAMS COMPANY  
FOR TWO NON-STANDARD OIL PRORATION UNITS,  
AN UNORTHODOX OIL WELL LOCATION, A HORIZONTAL/  
HIGH ANGLE DIRECTIONAL DRILLING PILOT PROJECT  
AND SPECIAL OPERATING RULES THEREFORE, AND A  
SPECIAL TEMPORARY OIL ALLOWABLE, SANDOVAL  
COUNTY, NEW MEXICO.

NO. 10,715

NEW MEXICO

AFFIDAVIT REGARDING NOTICE OIL CONSERVATION DIVISION

STATE OF COLORADO )

CITY AND COUNTY OF DENVER )

ss.

CASE NO.

EXHIBIT 6

10714/10715

Craig Ambler, being duly sworn under his oath, deposes  
and states:

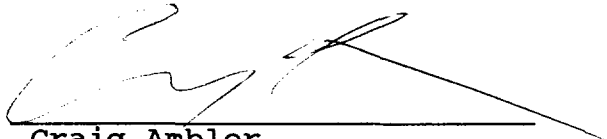
1. I am over the age of 18 and have personal knowledge  
of the matters stated herein.

2. I am the landman for Applicant herein,

3. Applicant has conducted a good faith, diligent  
effort to find the names and correct addresses of persons  
entitled to receive notice of the Application herein.

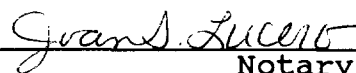
4. Notice of the Application was provided to said  
persons at their correct addresses by mailing them, by  
certified mail, a copy of the Application. Copies of the  
notice letters and certified return receipts are attached  
hereto.

5. The notice provisions of Rule 1207 have been  
complied with.

  
Craig Ambler

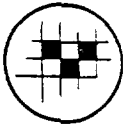
Subscribed and sworn to before me this 20th day of April,  
1993, by Craig Ambler.

My commission expires:

  
Joana Lucero

Notary Public

MY COMMISSION EXPIRES JAN. 21, 1996



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 903**

April 1, 1993

Talus Properties Limited Partnership  
c/o Evergreen Operating Corp.  
1512 Larimer Street, Suite 1000  
Denver, CO 80202

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

**THE GARY-WILLIAMS COMPANY**

*Richard E. Frazey*  
Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

PS Form 3800, June 1990

Sent to	1160
Street & No.	1160
P.O., State & ZIP Code	1160
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 860 435 903

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
  2. ☐ Restricted Delivery
- Consult postmaster for fee.

**4a. Article Number**

0860 435 903

**4b. Service Type**

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

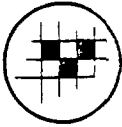
**7. Date of Delivery**

4-5-73

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

5. Signatory (Addressee)  
6. Signature (Agent)

PS Form 3811, November 1990 \* U.S. GPO: 1991-287-066 DOMESTIC RETURN RECEIPT



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

Certified Mail-RRR  
P 860 435 902

April 1, 1993

Union Pacific Resources Company  
P. O. Box 7  
Fort Worth, Texas 76101

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

*Richard E. Frazey*

Richard E. Frazey  
Consulting Landman

RF/jsl  
Enclosures

PS Form 3800, June 1990

Sent to	
Street & No.	
P.O. State & ZIP Code	
Postage	\$
Certified Fee	\$
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 860 435 902

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- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Union Pacific Resources Company  
P.O. Box 7  
Fort Worth, Texas 76101

**4a. Article Number**

P 860 435 902

**4b. Service Type**

- ☐ Registered    ☐ Insured  
☒ Certified    ☐ COD  
☐ Express Mail    ☐ Return Receipt for Merchandise

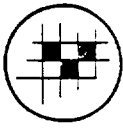
**7. Date of Delivery**

APR 05 1993

**5. Signature (Addressee)**

Addresser's Address (Only if requested and fee is paid)

**6. Signature (Agent)**



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

Certified Mail-RRR  
P 860 435 901

April 1, 1993

Energy Development Corporation  
1000 Louisiana, Suite 2900  
Houston, Texas 77002

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

*Richard E. Frazey*  
Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

PS Form 3800, June 1990

Sent to	
Street & No.	
P.O., State & Zip Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 860 435 901

**SENDER:**

- Complete Items 1 and/or 2 for additional services.
- Complete Items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
  2. ☐ Restricted Delivery
- Consult postmaster for fee.

**3. Article Addressed to:**

Energy Development Corp  
1606 Louisiana, Suite 2700  
Houston, TX 77062

**4a. Article Number**

860 435 901

**4b. Service Type**

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

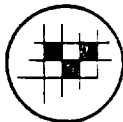
**7. Date of Delivery**

APR 2

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

5. Signature (Addressee)  
6. Signature (Agent)

PS Form 3811, November 1990 \*U.S. GPO: 1991-287-099 DOMESTIC RETURN RECEIPT



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

Certified Mail-RRR  
P 860 435 904

April 1, 1993

Estate of Raymond Chorney  
555 17th Street, Suite 1000  
Denver, CO 80202-3910

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

*Richard E. Frazey*

Richard E. Frazey  
Consulting Landman

RF/jsl  
Enclosures

PS Form 3800, June 1990

Sent to	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 860 435 904



**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

**3. Article Addressed to:**

Estate of Raymond  
Cheney  
555 17th Street  
Suite 1000  
Denver, CO 80202-3110

**5. Signature (Addressee)****6. Signature (Agent)**

*[Signature]*

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**4a. Article Number**

P 860 435 904

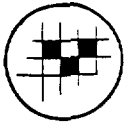
**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

**7. Date of Delivery**

11/5/93

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



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 905**

April 1, 1993

Yates Drilling Company  
ABO Petroleum Corporation  
MYCO Industries, Inc.  
Yates Petroleum Corporation  
c/o 105 S. 4th Street  
Artesia, New Mexico 88110

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

**THE GARY-WILLIAMS COMPANY**

*Richard E. Frazey*

Richard E. Frazey  
Consulting Landman

RF/jsl  
Enclosures

PS Form 3800, June 1990

Sent to	
Street & No.	
P.O. State & ZIP Code	
Postage	
Certified Fee	\$
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	4/1/93 5:44 PM

**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

P 860 435 905

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
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- The Return Receipt Fee will provide you the signature of the person delivering to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Yates Drilling Company, ASO  
Petroleum Corporation, MYCO  
Industries, Inc. and  
Yates Petroleum Corporation  
c/o 105 S. 4th Street  
Arlington, New Mexico 88110

**4a. Article Number**

38110 435905

**5. Service Type**

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

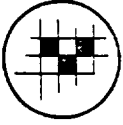
**7. Date of Delivery**

4-5-93

**5. Signature (Addressee)**

*[Signature]*

**6. Signature (Agent)****8. Addressee's Address (Only if requested and fee is paid)**



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

HAND DELIVERED

April 2, 1993

Samuel Gary Jr. & Associates, Inc.  
1775 Sherman Street, Suite 1925  
Denver, Colorado 80203

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

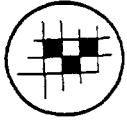
Enclosed is a copy of an Application for a Horizontal Directional Drilling Pilot Project, etc., filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. Records indicate you are an offset operator or lessee. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 900**

April 1, 1993

Shogoil, Ltd.  
P. O. Box 229  
Hygiene, CO 80533

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

**THE GARY-WILLIAMS COMPANY**

Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

P 860 435 900



## Certified Mail Receipt

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent To: <u>Shogoil Ltd</u>	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800 June 1990

NEW MEXICO  
OIL CONSERVATION DIVISION

EXHIBIT

7

CASE NO.

10714/10715

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
  2. ☐ Restricted Delivery
- Consult postmaster for fee.

**3. Article Addressed to:**

Shogou, Ltd,  
P.O. Box 229  
Higiena, 6/80533

**4a. Article Number**

9860435900

**4b. Service Type**

- ☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

**7. Date of Delivery**

4-8-97

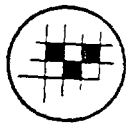
**8. Addressee's Address (Only if requested and fee is paid)**

Signature (Addressee)  
*Charles Hagan*

Signature (Agent)

PS Form 3811, November 1990 \* U.S. GPO: 1991-287-099

**DOMESTIC RETURN RECEIPT**



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 899**

April 1, 1993

Ms. Corrine Grace  
P. O. Box 1418  
Carlsbad, NM 88220

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Dear Ms. Grace:

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

**THE GARY-WILLIAMS COMPANY**

*Richard E. Frazey*  
Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

P 860 435 899



## Certified Mail Receipt

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800 June 1990

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Ms. Corrine Grace  
P.O. Box 1418  
Catsbad, NM 88220

**4a. Article Number**

8800435899

**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

**7. Date of Delivery**

4-7-2

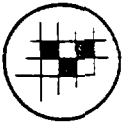
**8. Addressee's Address (Only if requested and fee is paid)**

5. Signature (Addressee)  
Michael Morris

6. Signature (Agent)

PS Form 3811, November 1990 \*U.S. GPO 1991-29-494 DOMESTIC RETURN RECEIPT





# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 898**

**April 1, 1993**

**Union Pacific Resources Company**  
**P. O. Box 7**  
**Fort Worth, Texas 76101**

**Re: Proposed Ceja Pelon Unit**  
**Sandoval County, New Mexico**

**Gentlemen:**

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

**Very truly yours,**

**THE GARY-WILLIAMS COMPANY**

*Richard E. Frazey*

**Richard E. Frazey**  
**Consulting Landman**

**RF/jsl**  
**Enclosures**

P 860 435 898



**Certified Mail Receipt**  
No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

PS Form 3800, June 1990

Sent to	
1720	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
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- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
  2. ☐ Restricted Delivery
- Consult postmaster for fee.

**3. Article Addressed to:**

Union Pacific Resources Corp

P.O. Box 7

Fort Worth TX 76101

**4a. Article Number**

860435 898

**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

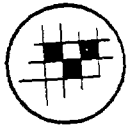
**7. Date of Delivery**

APR - 6 1993

**5. Signature (Addressee)****6. Signature (Agent)****8. Addressee's Address (Only if requested and fee is paid)**

PS Form 3811, November 1990 \* U.S. GPO: 1991-287-000

DOMESTIC RETURN RECEIPT



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

Certified Mail-RRR  
P 860 435 897

April 1, 1993

Dugan Production Corporation  
P. O. Box 5820  
Farmington, New Mexico 87499

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

*Richard E. Frazey*

Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

P 860 435 897



## Certified Mail Receipt

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to <i>Dugan Production</i>	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800, June 1990

**RENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address

2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Duga Production Corp.  
P.O. Box 5820  
Farmington, NM 87499

**4a. Article Number**

0860 435 877

**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

**7. Delivery**

**8. Signature (Agent)**

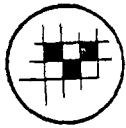
*[Signature]*

**5. Signature (Addressee)**

*[Signature]*

RS Form 3811, November 1990

U.S. POST 5901-287 006 DOMESTIC RETURN RECEIPT



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

Certified Mail-RRR  
P 860 435 896

April 1, 1993

Bright & Company  
10100 Reunion Place  
Suite 735  
San Antonio, Texas 78216

Re: Proposed Ceja Pelon Unit  
Sandoval County, New Mexico

Gentlemen:

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

Very truly yours,

THE GARY-WILLIAMS COMPANY

Richard E. Frazey  
Consulting Landman

RF/js1  
Enclosures

P 860 435 896



## Certified Mail Receipt

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to BRIGHT & COMPANY	
Street & No.	
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800 June 1990

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
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- Write "Return Receipt Requested" on the mailpiece below the article number.
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery
- Consult postmaster for fee.

**3. Article Addressed to:**

Bright & Company  
16100 Reunion Place  
Suite 735  
San Antonio, TX 78216

**4a. Article Number**

0860 435 876

**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

**7. Date of Delivery**

APR 8 1993

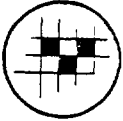
**5. Signature (Addressee)**

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

**6. Signature (Agent)**

*[Signature]*

PS Form 3811, November 1990 | U.S. POST 1991-287400 | **DOMESTIC RETURN RECEIPT**



# The Gary-Williams Company

1775 Sherman Street • Suite 1925  
Denver, Colorado 80203 • (303) 831-4673

**Certified Mail-RRR**  
**P 860 435 895**

**April 1, 1993**

**Energy Development Corporation**  
**1000 Louisiana, Suite 2900**  
**Houston, Texas 77002**

**Re: Proposed Ceja Pelon Unit**  
**Sandoval County, New Mexico**

**Gentlemen:**

Enclosed is a copy of an Application and Amended Application for Approval of the Ceja Pelon Unit and Special Operating Rules therefor, filed with the New Mexico Oil Conservation Division by The Gary-Williams Company. This matter will be heard by the Division on Thursday, April 22, 1993, at 8:15 a.m. at the Division's offices at 310 Old Santa Fe Trail, Santa Fe, New Mexico. Failure to appear at that time will preclude you from contesting this Application at a later date.

**Very truly yours,**

**THE GARY-WILLIAMS COMPANY**

*Richard E. Frazey*

**Richard E. Frazey**  
**Consulting Landman**

**RF/js1**  
**Enclosures**

**P 860 435 895**



## Certified Mail Receipt

No Insurance Coverage Provided  
Do not use for International Mail  
(See Reverse)

Sent to	<i>ENC</i>
Street & No.	<i>1</i>
P.O., State & ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Address of Delivery	
TOTAL Postage & Fees	\$
Postmark or Date	

PS Form 3800, June 1990

**SENDER:**

- Complete items 1 and/or 2 for additional service.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
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- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

**3. Article Addressed to:**

Energy Development Corp.  
1000 Louisiana  
Suite 2360  
Houston, TX 77002

**4a. Article Number**

9860 435 895

**4b. Service Type**

- ☐ Registered ☐ Insured
- ☒ Certified ☐ COD
- ☐ Express Mail ☐ Return Receipt for Merchandise

**7. Date of Delivery**

X 8-10-80

**5. Signature (Addressee)**

*[Signature]*

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