

Exhibits 1 through 5

WATERFLOOD STUDY
OF THE
MESA GALLUP FIELD
SAN JUAN COUNTY, NEW MEXICO

JACK SCHRENKEL AND ASSOCIATES

WATERFLOOD STUDY
OF THE
MESA GALLUP FIELD
SAN JUAN COUNTY, NEW MEXICO

FOR:

GRAND RESOURCES, INC.

March 21, 1989
(Revised April 21, 1989)



JACK SCHRENKEL & ASSOCIATES, INC.

320 S. BOSTON, SUITE 719 • TULSA, OKLAHOMA 74103-3709

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March 22, 1989

(Revised April 21, 1989)

Grand Resources, Inc.
2250 E. 73rd St.
Tulsa, Oklahoma 74136

Gentlemen:

In response to your instructions we have made a study of the Mesa Gallup Field located in San Juan, New Mexico, for the purpose of determining the feasibility of waterflooding this field. As you know the adjacent Horseshoe Gallup and Many Rocks Fields have been successfully waterflooded for many years. The engineering and geologic data available on the Mesa Gallup reservoir and analogies with the Horseshoe Gallup and Many Rocks Fields indicates a high probability of additional oil being recovered from the Mesa Gallup Field by secondary recovery operations. The cumulative production from the Mesa Gallup reservoir, as of December 31, 1988, is 562,200 barrels.

The economic primary oil has been recovered and the field has been marginal for several years. A waterflood program will recover an additional 440,000± barrels of oil with a required investment of \$372,000 and an estimated future profit to unit owners of \$3,094,000. Pertinent information on the Field is summarized in Table 1 and comparative recoveries with the Many Rocks Field and the Navajo F, G, & M leases in the Horseshoe Gallup Field are presented on Table 2.

The reservoir is a northwest southeast trending strike sand which is shown by Map 2 (Gallup Net Pay). The field contains 10,410 oil acre-feet, which it is believed that 8,160 acre-feet may be swept. Initially it is proposed to use the 4 injection wells shown on Map 1. In addition there is a small gas-cap on the northwest tip of the field indicated by the dashed lines. A fault at the east boundary of Tract No. 12 appears to isolate the Dugan Horseshoe No. 2-E in S. 30-T.32N-R.18W from the Mesa Gallup reservoir. This fault is said to be expressed at the surface. The exclusion or inclusion of the Dugan Horseshoe No. 2-E would have only negligible effect on recoveries or equities.

It is proposed that the Morrison Sand water supply well be drilled NE SE S. 30-T.32N-R.18W and the injection plant constructed at this point to service the water injection wells. An adequate water supply to produce and inject approximately 1,000 barrels of water per day may be developed in the Morrison water sands at depths 2500-3000

feet at the injection plant location. The Morrison is a blanket water sand and study of wells in the area indicates a depth of less than 3000 feet should be adequate to develop a satisfactory water supply.

Many of the oil wells drilled in Sections 14, 23, 24 and 25 have been cored by the operators who originally drilled the wells and are those properties owned by Grand Resources, et al. Details of wells in the general vicinity are shown by Appendix 2. In addition Appendix 1 lists the complete production history of properties in this reservoir.

To effectively waterflood the field, it should be unitized to include the 6 wells operated by Ari-Mex Exploration in Sections 10 and 15. Ari-Mex has expressed their desire to join in an unitized effort to waterflood. The proposed unit boundary and the tracts are shown by Map 1. The legal description, by tract, gross acre-feet, net floodable acre-feet, number of wells, cumulative oil (in thousands of barrels), and tract participation factors are shown on Table 3. These values are summed by operator. All of the mineral interests are owned by the Navajo Nation with this area being productive since August 24, 1961.

The field is at its economic limit. December production was 360 barrels for the field, which is an average of 18 barrels per well per month or approximately 1/2 barrel per day. From this it is obvious the field is at its economic limit. For this reason no primary participation factors or values were assigned.

It is our recommendation that the secondary participation be weighted 60 percent net floodable acre-feet, 10 percent well count, and 30 percent cumulative oil production as of December 31, 1988. In our opinion this results in a equitable distribution of future oil to each unit owner in proportion to the actual value they bring to the unit. Based on the foregoing the recommended working interest participation factors are as follows:

Ari-Mex Exploration	14.26925%
21st Century Investment Co.	57.86825%
Jack Schrenkel	21.43269%
Grand Resources	<u>6.42981%</u>
TOTAL	100.00000%

Grand Resources, Inc.

March 22, 1989
(Revised April 21, 1989)

In addition to Table 4 showing the economics of water injection for the Unit owners, Table 5 sets out the future revenue to the Navajo Nation from this proposed Unit operation.

It is our recommendation that we proceed with this unitization effort and secondary recovery project in a diligent manner. This is one of those happy projects where everyone will benefit.

Yours very truly,

Jack Schrenkel & Associates, Inc.

Jack Schrenkel & Associates, Inc.

JS:s1

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APPENDIX 1

Mesa Gallup Field Total (Excluding Dugan Prod. Horseshoe #2-E)
Grand Resources - Navajo "C" 1 - 6
Grand Resources - Aztec Navajo A4 & 5
Grand Resources - Navajo #3 - 12
Ari-Mex Explor. - 6 Navajo Leases
Dugan Prod. - Horseshoe #2E

APPENDIX 2

Well Data

TABLE 1

PERTINENT DATA

Name of Field	Mesa Gallup
Location	T.32N, R.18W NMPM San Juan County, New Mexico
Discovery Well	Amalgamated Petroleum No. 3 Navajo
Date of Discovery	August 24, 1961
Producing Reservoir	Gallup Sandstone
Depth	1100-1500 feet
Current Producing Rate (December 1988)	360 BOPM
Producing Wells	20 (19 oil, 1 SI gas well)
Surface area - Productive	940 acres
Volume of the reservoir	10410 acre-feet
Average pay thickness	11.2 feet
Porosity	13.1 percent
Permeability, average	70 md
Connate Water Saturation	31 percent
Oil gravity	40° API
Oil viscosity @ 94°F	7 cp (est)
Initial solution gas-oil ratio	60± cu. ft. per bbl.
Oil volume factor	1.035 RB/STB
Initial bottom hole pressure	240 psig (?)
Reservoir Temperature	94°F (?)
Primary reserves	562,200 barrels
Oil-in-place per acre-foot original	668 barrels
Cumulative field production, as of December 31, 1988	574,500 barrels
Remaining primary reserves	0 barrels
Waterflood reserves	440,000 barrels
Water source	Morrison Water Sands (2500-3000 feet)
Required investment (water supply well & plant injection system, convert 3 wells to water injection)	\$372,000
Estimated Future Profit (Undiscounted)	\$3,094,000

TABLE 2

COMPARATIVE RECOVERIES
AND RESERVOIR CHARACTERISTICS
FOR ADJACENT GALLUP FIELDS

	Navajo F, G, & M Lease (1) (Horseshoe Gallup Fld)	Many Rocks Fld (2)	Mesa Gallup (12/31/88)
Number of Wells	54	18	21
Average Porosity, %	16.2	14.2	13.1
Permeability, md	90	145	70
Connate Water Saturation, %	34	30	31
Oil Volume Factor	1.03	1.03	1.035
Acres Productive	2445	968	940
Sand Vol., AF	27559	6395	10410
Floodable Acre Feet	?	?	8160
Net Pay Thickness	11.3	6.6	11.2
Oil-In-Place, MSTB	22328	4808	7133
Cumulative Oil, MSTB	4265 (7-1-80)	801 (7-1-80)	562.5 (12-31-88)
Recovery, %	19 (7-1-80)	16.7 (7-1-80)	8.3 (12-31-88)
Oil-In-Place STB/AF	810	751	678
Produced Water/Oil Ratio	25	23	0
Remaining Reserve, MSTB	394 (7-1-80)	100 (7-1-80)	440 (4-1-89)
Ultimate Production, MSTB	4659	811	1014.5
Ultimate Recovery, %	20.9	16.9	14.2

(1) Disc. late 1956
Wtr Inj started three
leases, Oct. 1960

(2) Disc. Nov. 1962
Wtr. Inj. started
1963

** TRACT LEGAL DESCRIPTION AND CURRENT OPERATOR **

TRACT NO	DESCRIPTION	OPERATOR
1	SE/4 S10 - N/2 N/2 + E/2 NE/4 S15	ARI-MEX EXPLORATION
2	W/2 NE/4 + SE/4	ARI-MEX EXPLORATION
3	W/2 + N/2 NE/4 + N/2 SE/4 S14	GRAND RESOURCES
4	N/2 SE S14	GRAND RESOURCES
5	S/2 SW/4 S13	GRAND RESOURCES
6	W/2 + S/2 NE/4 + S/2 SE/4 S23	GRAND RESOURCES
7	N/2 NE/4 S23	GRAND RESOURCES
8	N/2 SE/4 S23	GRAND RESOURCES
9	E/2 + N/2 NW + N/2 SW/4 .S24	GRAND RESOURCES
10	S/2 NW/4 S24	GRAND RESOURCES
11	S/2 SW/4 S24	GRAND RESOURCES
12	N/2 S25	GRAND RESOURCES

** MESA GALLUP WATER FLOOD PARAMETERS (12/88, JSA) **

TRACT NO	ACRES	GROSS-AF	NET-AF	NO WELLS	CUM OIL
1	200	740	735	4	80.88
2	240	355	135	2	10.42
3	480	3313	2800	3	97.76
4	80	167	100	1	3.70
5	80	155	40	0	0.00
6	480	489	330	1	47.34
7	80	810	760	2	88.16
8	80	60	30	0	0.00
9	480	1701	1120	2	68.53
10	80	565	430	2	72.81
11	80	835	790	1	56.92
12	320	1220	890	2	35.65
	2680	10410	8160	20	562.17

TABLE 3

RECOMMENDED TRACT
PARTICIPATION FACTORS

** INTEREST IN EXPENSE (WORKING INTEREST) BY TRACTS ** 60% NET_AF, 10% WELL, 30% CUM OIL **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RSC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1172054	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
2	.0254871	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
3	.2730516	.1843098	.0682629	.0204789	0.0000000	0.0000000
4	.0143274	.0096710	.0035819	.0010746	0.0000000	0.0000000
5	.0029412	.0019853	.0007353	.0002206	0.0000000	0.0000000
6	.0545275	.0368061	.0136319	.0040896	0.0000000	0.0000000
7	.1129286	.0762268	.0282322	.0084696	0.0000000	0.0000000
8	.0022059	.0014890	.0005515	.0001654	0.0000000	0.0000000
9	.1289237	.0870235	.0322309	.0096693	0.0000000	0.0000000
10	.0804724	.0543189	.0201181	.0060354	0.0000000	0.0000000
11	.0934634	.0630878	.0233658	.0070098	0.0000000	0.0000000
12	.0944657	.0637643	.0236164	.0070849	0.0000000	0.0000000
1.0000000	.1426925	.5786825	.2143269	.0642981	0.0000000	0.0000000

** INTEREST IN NET REVENUE BY TRACTS **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RSC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1025548	0.0000000	0.0000000	0.0000000	.0146507	0.0000000
2	.0223012	0.0000000	0.0000000	0.0000000	.0031859	0.0000000
3	.0000000	.1612711	.0597300	.0179190	.0341315	0.0000000
4	.0000000	.0084621	.0031342	.0009403	.0017909	0.0000000
5	.0000000	.0017371	.0006434	.0001930	.0003677	0.0000000
6	.0000000	.0322053	.0119279	.0035784	.0068159	0.0000000
7	.0000000	.0666985	.0247032	.0074109	.0141161	0.0000000
8	.0000000	.0013029	.0004826	.0001447	.0002757	0.0000000
9	.0000000	.0761456	.0282020	.0084606	.0161155	0.0000000
10	.0000000	.0475290	.0176033	.0052810	.0100591	0.0000000
11	.0000000	.0552018	.0204451	.0061336	.0116829	0.0000000
12	.0000000	.0540502	.0200186	.0060056	.0118082	.0025830
1.0000000	.1248560	.5046036	.1868903	.0560671	.1250000	.0025830

TABLE 3 (Continued)

MESA GALLUP FLD AS OF APRIL 1, 1989 UNESC COSTS

PROPOSED UNIT: MESA GALLUP FLD
 GRAND RESOURCES INC. GALLUP SANDSTONE
 ** CASE ** \$15/B
 SAN JUAN COUNTY NEW MEXICO
 LEASE NO: #1 API NO. -
 RRC/OTC NO. -

* RESERVE ESTIMATES AND PREDICTED CASH FLOW * BEFORE FEDERAL INCOME TAX *

CUMULATIVE:	OIL = 0 BBL,		GAS = 0 MCF		OIL = 44000 BBL,		GAS = 0 MCF		FUTURE NET INCOME = \$2,178,826	
	12-31-1989	12-31-1990	12-31-1991	12-31-1992	12-31-1993	12-31-1994	12-31-1995	12-31-1996	12-31-1997	12-31-1998
FIRST PERIOD STARTS	04-1-1989									
GROSS VALUES										
OIL/COND	4005	50345	65110	61240	57406	49025	41626	35344	30010	25481
GAS										
OPERATING COST	144000	216000	264000	264000	264000	264000	264000	264000	264000	247825
OIL PRICES	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
GAS PRICES										
INTANGIBLE INVES	73000	129000								
CAPITAL INVES	119000	51000								
TAXES										
OIL SEVERENCE	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31	1.31
GAS SEVERENCE										
WINDFALL PROFIT										
NET VALUES										
OIL/COND	3504	44052	56971	53585	50230	42897	36423	30926	26259	17857
GAS										
REVENUE TO NI	47970	603072	779933	733579	687649	587260	498631	423377	359486	305232
INTANGIBLE INVES	73000	129000								
CAPITAL INVES	119000	51000								
OPERATING COST	144000	216000	264000	264000	264000	264000	264000	264000	264000	247825
NET INCOME	-288030	207072	515933	469579	423649	323260	234631	159377	95486	41232
CUMULATIVE INCOME	-288030	-80958	434975	904554	1328203	1651463	1886094	2045471	2140957	2182189
CUM. P WORTH @ 10.00 %	-284587	-98590	322704	671289	957188	1155508	1286368	1367176	1411188	1428466
P WORTH @ 15.00%	1176376	P WORTH @ 20.00%	978718	P WORTH @ 25.00%	820400	P WORTH @ 30.00%	691751	P WORTH @ 40.00%	497673	

REMARKS/BASIS OF RESERVE ESTIMATES..... STARTING PRICES & COSTS PROJECTIONS.....
 Gas: 0 \$/M NGPA CAT: 101
 Oil: 15 \$/B IRS TIER: 3
 Operating Cost: 22000 \$/M
 INITIAL RATE IS = 450 B/M
 (1)CRP @ 450.0 B/M TO 1.0 YRS
 (2)CRP @ 550.0 B/M TO 2.0 YRS
 (3)CRP @ 3400.0 B/M TO 3.0 YRS
 (4)CRP @ 5000.0 B/M TO 4.0 YRS
 (5)CPD @ 15.1 %/YR TO ELC AT 440.0 MB
 NUMBER OF WELL(S) = 20 OIL
 ECONOMIC LIMIT = 1676.2 B/M

PROJECTED ECONOMICS OF WATER INJECTION FOR UNIT

DR/EEP 45W ...78 M\$ TANGIBLE; ...53 M\$ INTANGIBLE; @ .42 YRS CONV 3 INJ ...41 M\$ TANGIBLE; ...20 M\$ INTANGIBLE; @ .42 YRS

MESA GALLUP FLD AS OF APRIL 1, 1989 MINERAL INT

PROPOSED UNIT: MESA GALLUP FLD
 GRAND RESOURCES INC. GALLUP SANDSTONE
 ** CASE ** \$15/B
 SAN JUAN COUNTY NEW MEXICO
 LEASE NO: #1 API NO: -
 RRC/OTC NO. -

* RESERVE ESTIMATES AND PREDICTED CASH FLOW * BEFORE FEDERAL INCOME TAX *

CUMULATIVE:	OIL = 0 BBL,	GAS = 0 MCF	*** ULTIMATE:	OIL = 440000 BBL,	GAS = 0 MCF	***	FUTURE NET INCOME =	\$794,197				
FIRST PERIOD STARTS	04-1-1989											
PERIOD ENDING	12-31-1989	12-31-1990	12-31-1991	12-31-1992	12-31-1993	12-31-1994	12-31-1995	12-31-1996	12-31-1997	12-31-1998	12-31-1998+	TOTAL OF
GROSS VALUES												10.68 YRS
OIL/COND	4005	50345	65110	61240	57406	49025	41626	35344	30010	25481	20408	440000
GAS												
GOR												
OPERATING COST	144000	216000	264000	264000	264000	264000	264000	264000	264000	264000	247821	2719821
OIL PRICES	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
GAS PRICES												
INTANGIBLE INVES	73000	129000										202000
CAPITAL INVES	119000	51000										178000
TAXES												
OIL SEVERENCE	\$/B	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
GAS SEVERENCE	\$/M											
WINDFALL PROFIT	\$/B											
NET VALUES												
OIL/COND	BBL	501	6293	8139	7655	6128	5203	4418	3751	3185	2551	55000
GAS	MCF	7234	90871	117527	110538	88488	75131	63796	54164	45991	36836	794197
OIL/COND	\$	7234	90871	117527	110538	88488	75131	63796	54164	45991	36836	794197
GAS	\$	7148	88770	184739	266795	391011	432913	465260	490225	509497	14032	533529
REVENUE TO NI	\$											
INTANGIBLE INVES	\$											
CAPITAL INVES	\$											
OPERATING COST	\$											
NET INCOME	\$	7234	90871	117527	110538	88488	75131	63796	54164	45991	36836	794197
CUMULATIVE INCOME	\$	7234	98105	215632	326170	518279	593410	657206	711370	757361	794197	794197
CUM. P WORTH @ 10.00 %	\$	7148	88770	184739	266795	391011	432913	465260	490225	509497	14032	533529
P WORTH @ 15.00%	\$	439569	P WORTH @ 20.00%	375758	P WORTH @ 25.00%	326158	P WORTH @ 30.00%	286831	P WORTH @ 40.00%	229078		

REMARKS/BASIS OF RESERVE ESTIMATES..... STARTING PRICES & COSTS PROJECTIONS.....

Gas: 0 \$/M NSPA CAT: 101
 Oil: 15 \$/B IRS TIER: 3
 Operating Cost: 22000 \$/M

INITIAL RATE IS = 450 B/M
 (1)CRP @ 450.0 B/M TO 1.0 YRS
 (2)CRP @ 5500.0 B/M TO 2.0 YRS
 (3)CRP @ 5400.0 B/M TO 3.0 YRS
 (4)CRP @ 5000.0 B/M TO 4.0 YRS
 (5)CRP @ 15.1 Z/YR TO 1676.2 B/M AT 440.0 MB

NUMBER OF WELL(S) = 20 OIL
 ECONOMIC LIMIT = 1676.2 B/M

CONV 3 INJ ...41 M\$ TANGIBLE; ...20 M\$ INTANGIBLE; @ .42 YRS

DRL/CRP 35W ...78 M\$ TANGIBLE; ...53 M\$ INTANGIBLE; @ .42 YRS

TABLE 5
 PROJECTED ECONOMICS OF WATER
 INJECTION FOR NAVAJO NATION
 MINERAL INTEREST

PROPOSED UNIT

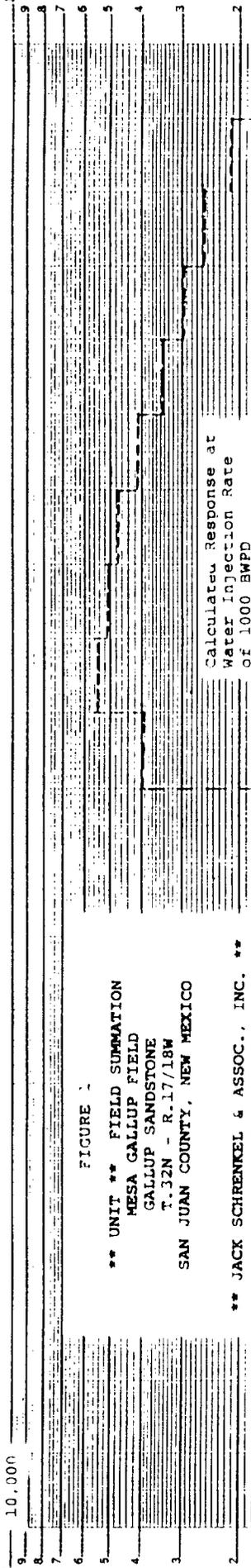
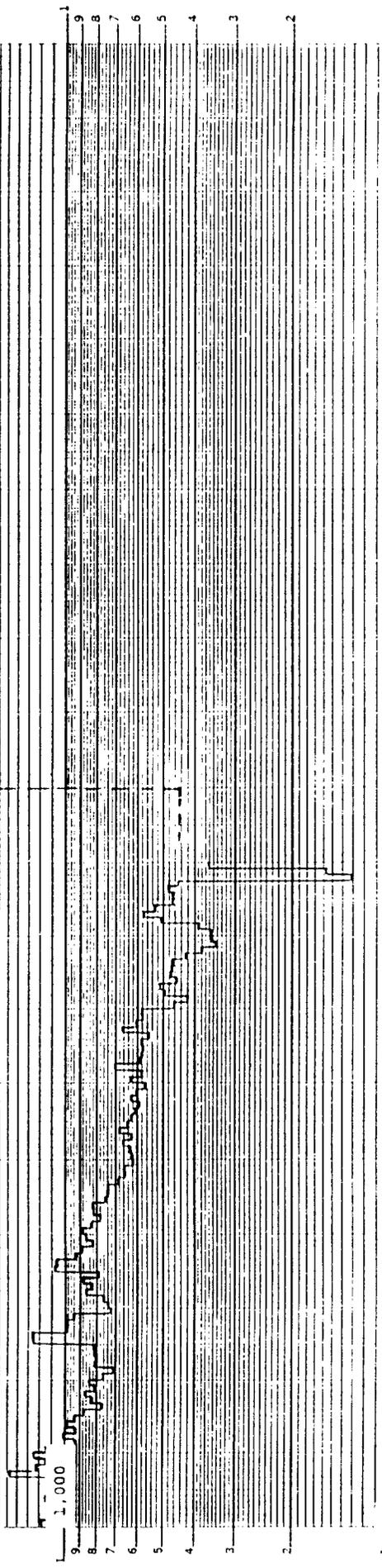


FIGURE 1

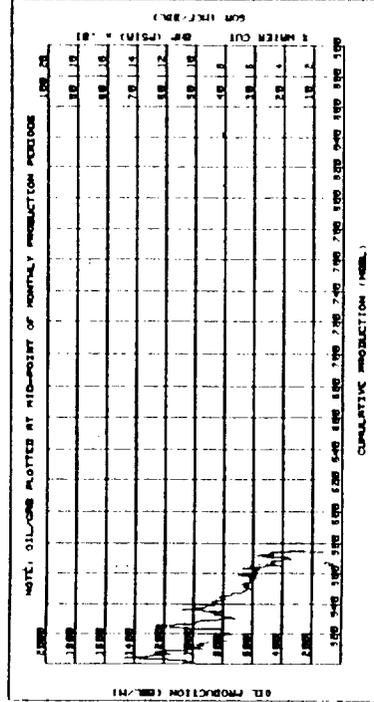
** UNIT ** FIELD SUMMATION
 MESA GALLUP FIELD
 GALLUP SANDSTONE
 T. 32N - R. 17/18W
 SAN JUAN COUNTY, NEW MEXICO

Calculated Response at
 Water Injection Rate
 of 1000 BWPD

** JACK SCHRENKEL & ASSOC., INC. **



OIL PRODUCTION, BBL/MONTH



NOTE: OIL/GAS PLOTTED AT MID-POINT OF MONTHLY PRODUCTION PERIODS

INVESTMENT ITEMS	TIME
Drill 3 wells	5-90
Drill & equip. 1 WSW	9-80
Convert 3 inj. wells #1-H NE of Sec. 15 #11-B NE SW Sec. 15 #3-N SE SW Sec. 24	9-89

30 31 32 33 34 35 36 37 38 39 40

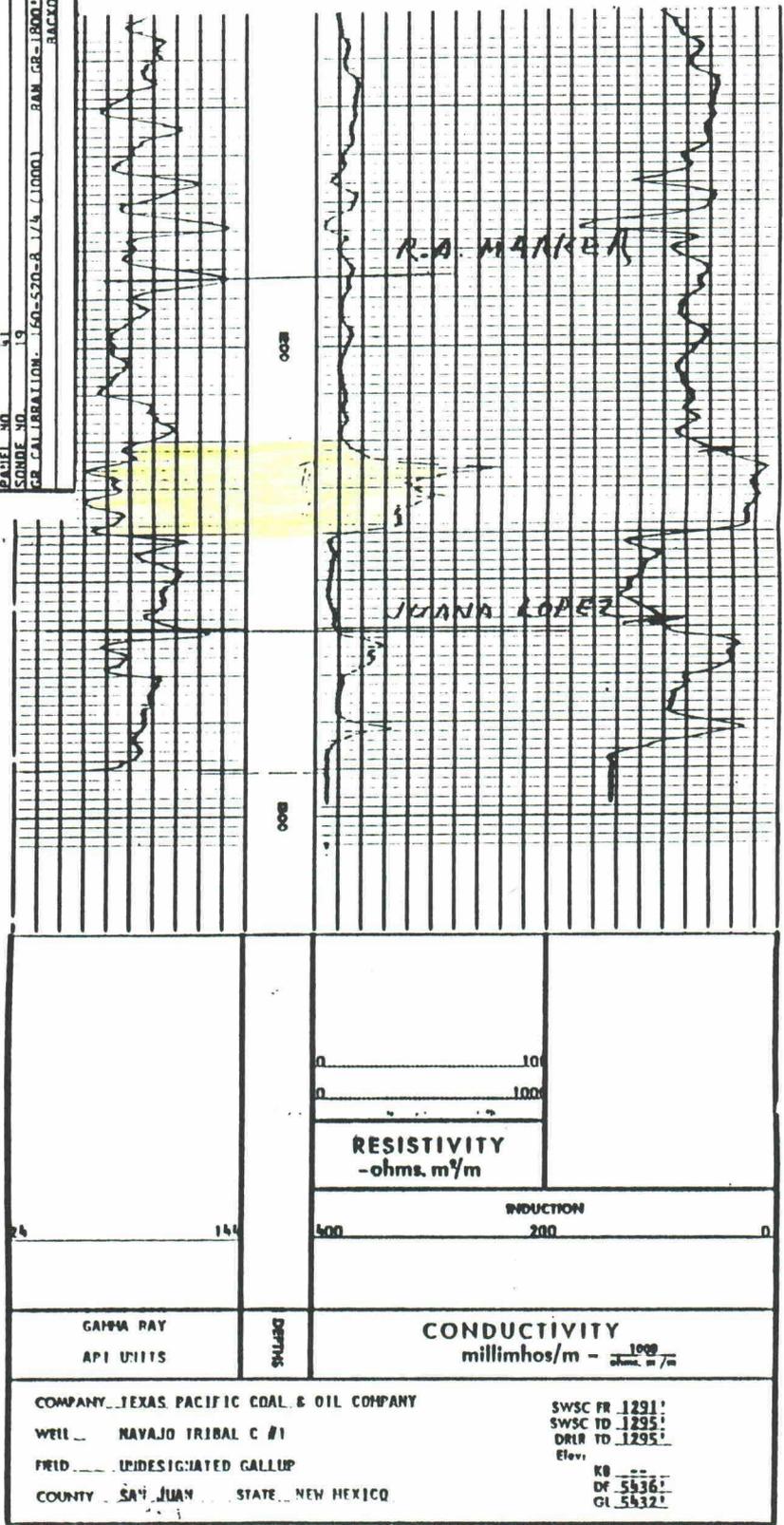
FIGURE 2

TYPICAL LOG

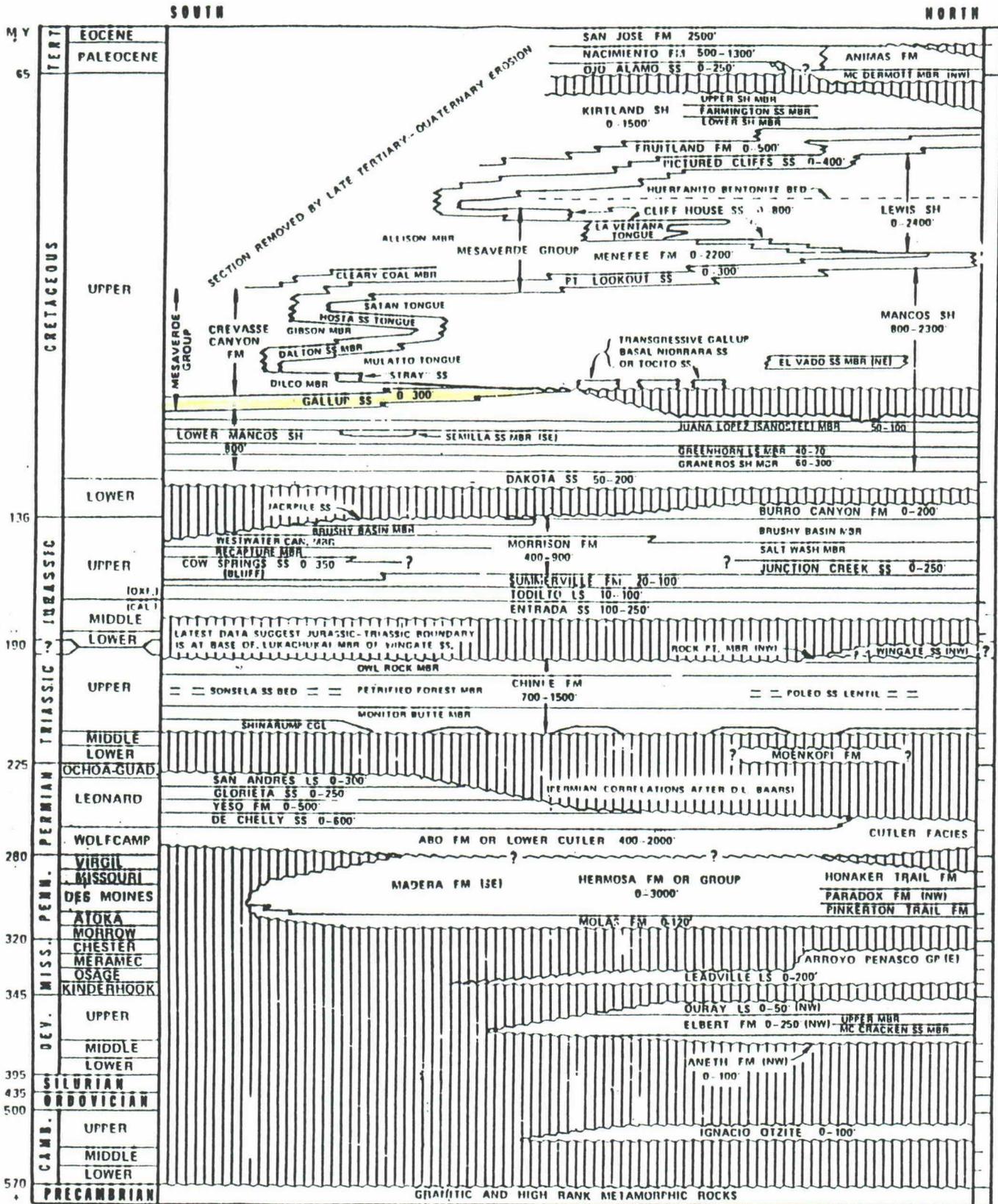
SCHLUMBERGER WELL SURVEYING CORPORATION	
COMBINATION INDUCTION-GAMMA RAY LOG	
COUNTY <u>SAN JUAN, N.M.</u> FIELD or LOCATION <u>UNDESIGNATED GALLUP</u> WELL <u>NAVAJO TRIBAL C #1</u> COMPANY <u>TEXAS PACIFIC</u> COAL & OIL COMPANY	Location of Well 660' FWL 2310' FS' SEC. 24-32N-18W Elevation: D.P. 5436' K.O. --- or O.L. 5432'
COMPANY <u>TEXAS PACIFIC</u> COAL & OIL COMPANY	WELL <u>NAVAJO TRIBAL C #1</u>
FIELD <u>UNDESIGNATED GALLUP</u>	LOCATION <u>SEC. 24-32N-18W</u>
COUNTY <u>SAN JUAN</u>	STATE <u>NEW MEXICO</u>
RUN No. <u>ONE</u>	DATE <u>3-4-62</u>
First Reading <u>1291</u>	Last Reading <u>100</u>
Feet Measured <u>1191</u>	Log. Driller <u>38</u>
Depth Reached <u>1295</u>	Bottom Driller <u>1295</u>
Depth Datum <u>DF</u>	Mud Mat. <u>011</u>
Viscosity	Resist. - @ - P @ - P
Bas. BHT - @ - P @ - P	pH - @ - P @ - P
Wtr. Loss - CC 20 min. CC 20 min.	Max. Temp. °F
Bit Size <u>6 1/4"</u>	SPCGS <u>IND. 5FF27</u>
Opr. Rig Time <u>1 HOUR</u>	Truck No. <u>2516FARM</u>
Recorded By <u>DILLI</u>	Witness <u>MR. FEFMSTER</u>

REMARKS
CARTRIDGE NO. 177
SERIAL NO. 51
SONDE NO. 19
GR. CALIBRATION: 160-520-R 1/4 (1000) - RAN GR-18001 PER HOUR IC-2 SENS. 500
RACVOEE 7 DIVISIONS

Gallup Sand to be flooded



TIME-STRATIGRAPHIC NOMENCLATURE CHART (SAN JUAN BASIN)



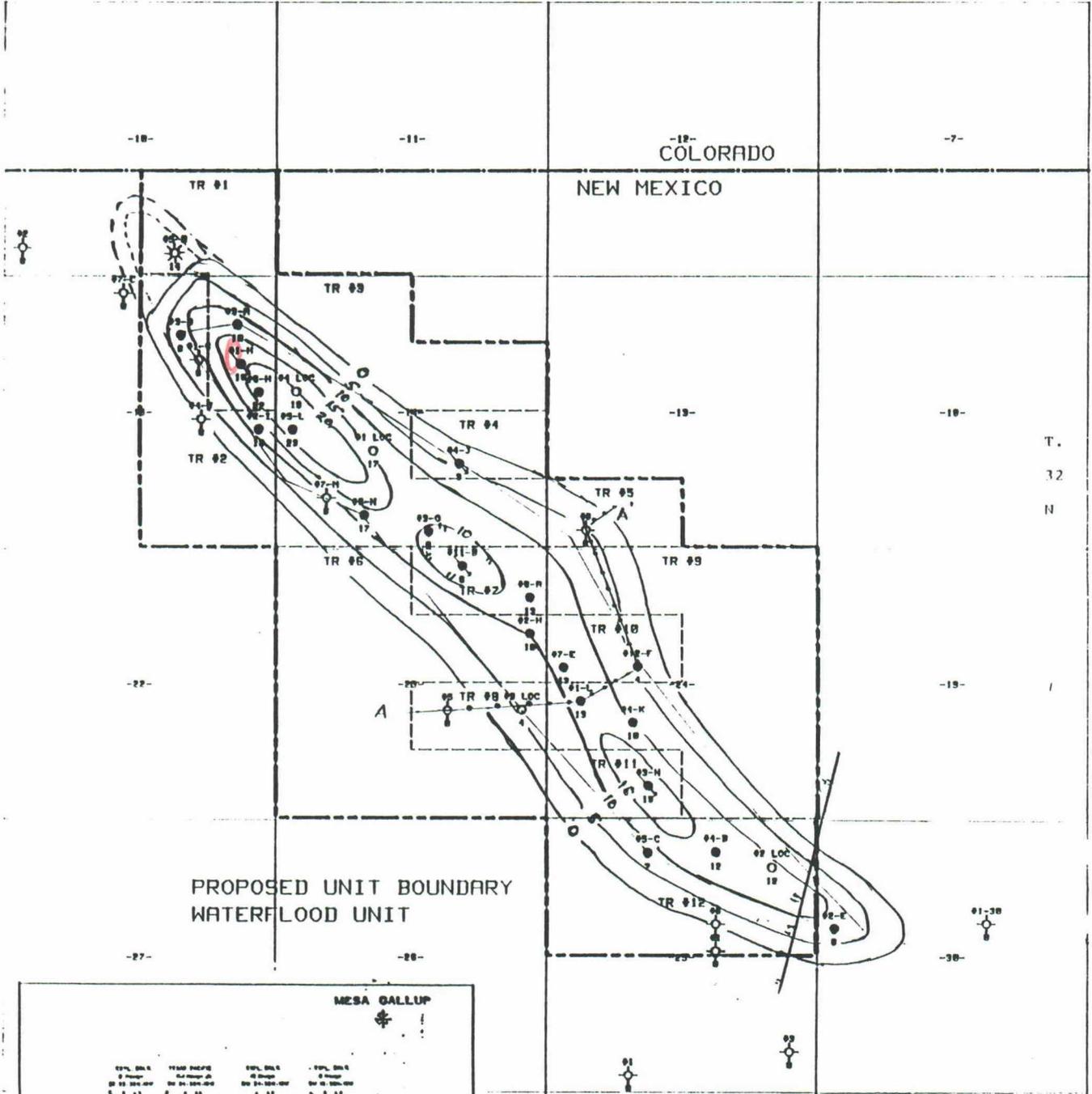
COMPILED BY C.M. MOLENAAR 1977

R. 18 W

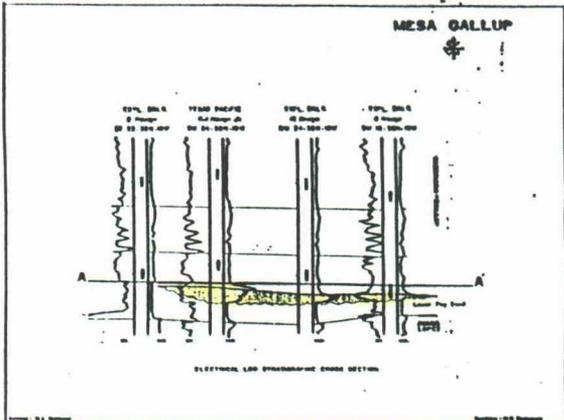
R. 17 W

-12-
COLORADO

NEW MEXICO



PROPOSED UNIT BOUNDARY
WATERFLOOD UNIT



MAP 2

MESA GALLUP FIELD
 SAN JUAN County, NEW MEXICO
 GALLUP NET PAY
 CONTOUR INTERVAL: 5 Feet
 SCALE: 1" = 2000 Feet
 GRAND RESOURCES INC
 DATE: 3-9-89

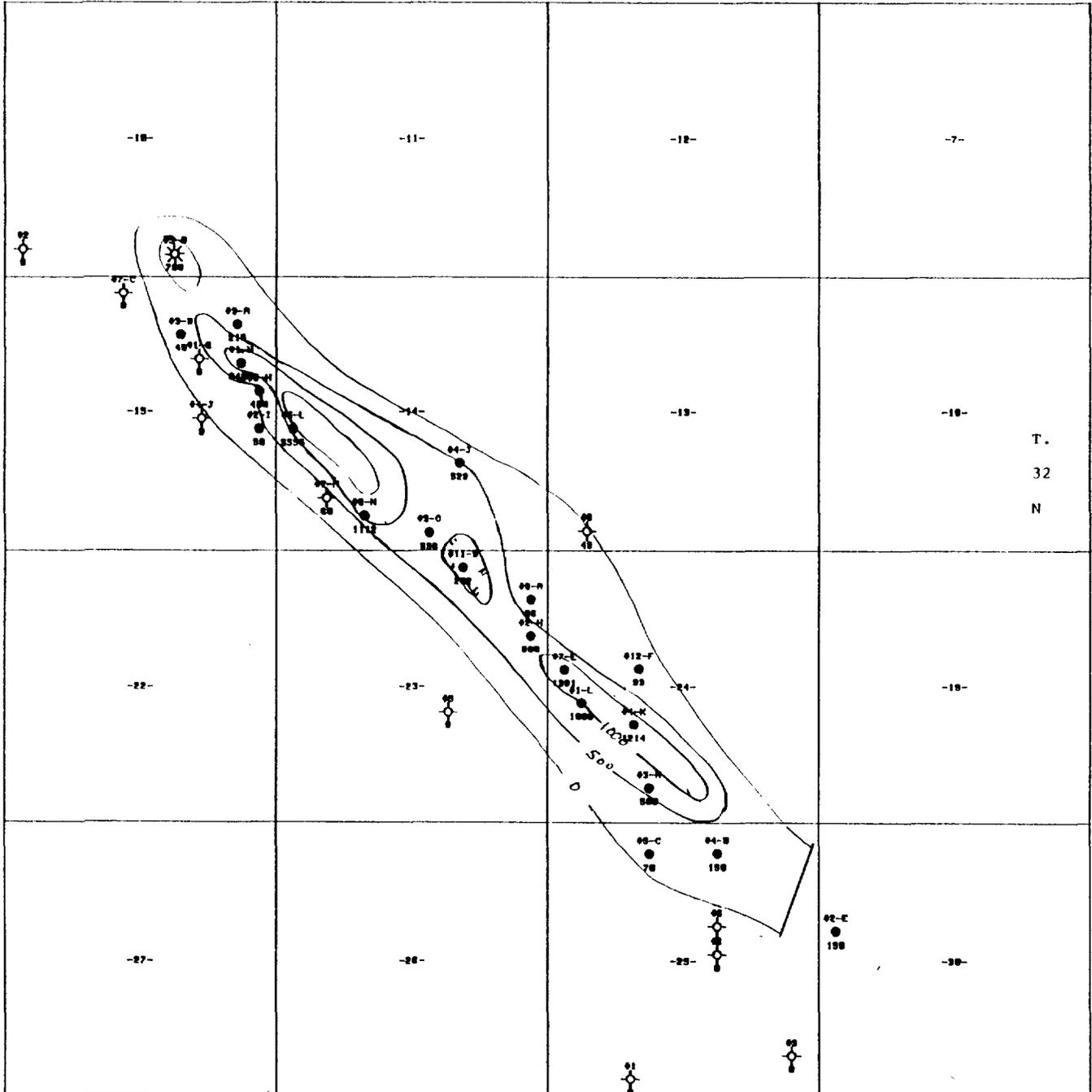
Jack Schrenkel & Associates, Inc.
 Tulsa, Oklahoma



For and Use of the Four Corners Area

R. 18 W

T. 17 W



T.
32
N

MAP 4

MESA GALLUP FIELD
 SAN JUAN County, NEW MEXICO
 GALLUP AVG. FLOW CAP.
 CONTOUR INTERVAL: 500 md-ft
 SCALE: 1" = 2000 Feet
 GRAND RESOURCES INC

DATE: 11-29-88

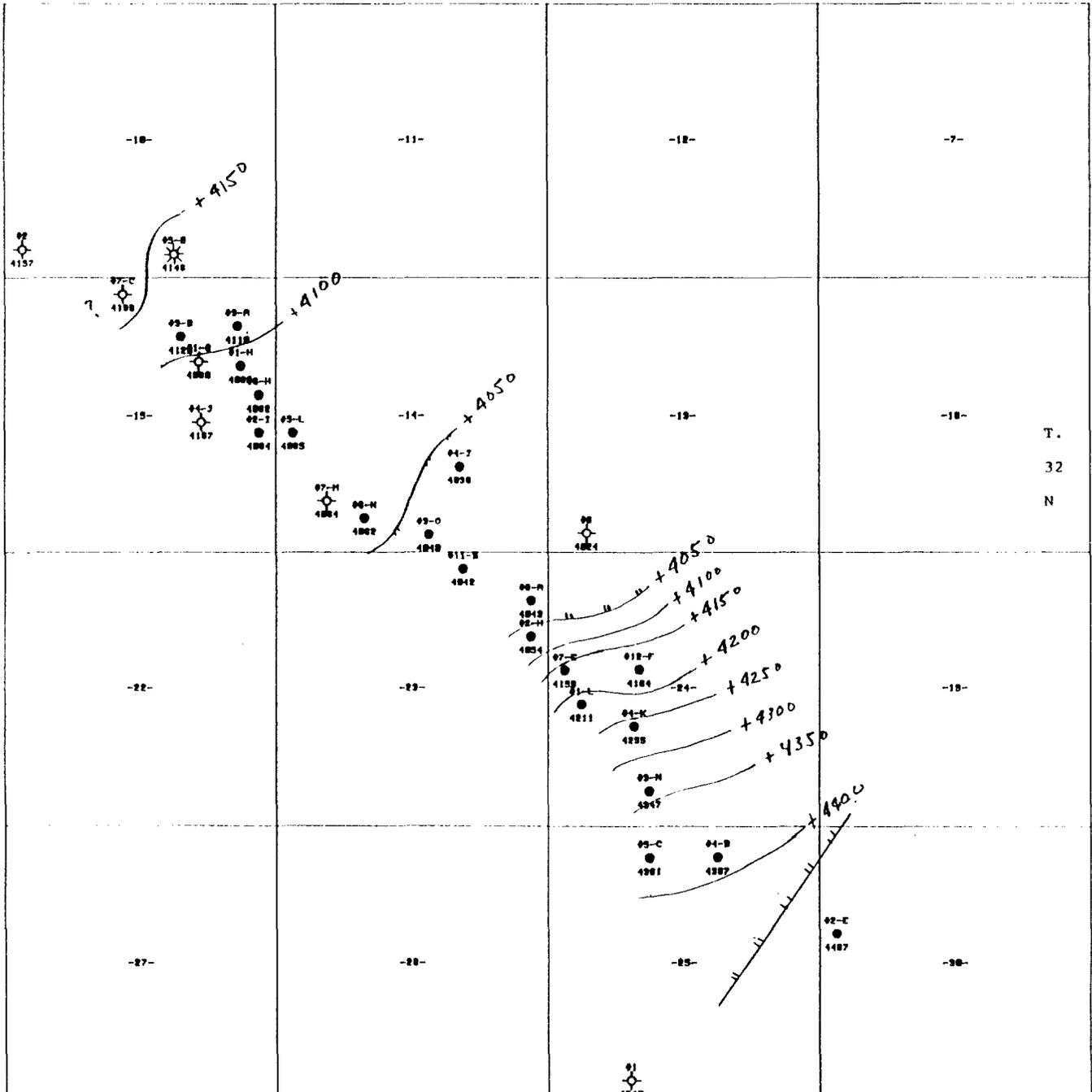
Jack Bohrenkel & Associates, Inc.
 Tulsa, Oklahoma

Data from core analyses or estimate from well potential

02-E
100

R. 18 W

T. 17 N



T.
32
N

MAP 5

MESA GALLUP FIELD
 SAN JUAN County, NEW MEXICO
 GALLUP TOP SAND
 CONTOUR INTERVAL: 50 Feet
 SCALE: 1" = 2000 Feet
 GRAND RESOURCES INC

DATE: 11-29-88

Jack Schrenkel & Associates, Inc.
 Tulsa, Oklahoma

08 J-H
4450

A P P E N D I X 1

PRODUCTION DATA
BY LEASE

of 4 leases through 12-88

in the MESA GALLUP Field, GALLUP Formation(s)

T.32N-R.17/18W: SAN JUAN, NM

NUMBER	WELL NAME	OPERATOR	FIRST/ LAST DATE	PRODUCTION DATA		
				OIL (MBSL) (BSL)	GAS (MMCF) (MCF)	WATER (MBSL) (BSL)
40	6 NAVAJO LSES	ARI-MEX	6-73 12-88	90.0 48 13.6	0.0 0 0.0	0.0 0 0.0
27	NAVAJO C 1 - 6	GRAND RES. INC.	6-73 12-88	212.7 116 33.0	0.0 0 0.0	0.0 0 0.0
1	AZTEC NAVAJO A4&5	GRAND RES. INC.	6-73 12-88	35.2 61 17.3	0.0 0 0.0	0.0 0 0.0
14	NAVAJO #3 - 12	GRAND RES. INC.	6-73 12-88	220.4 127 36.1	0.0 0 0.0	0.0 0 0.0
				558.3 352	0.0 0	0.0 0

Lease: 4 LEASES
Form.: GALLUP

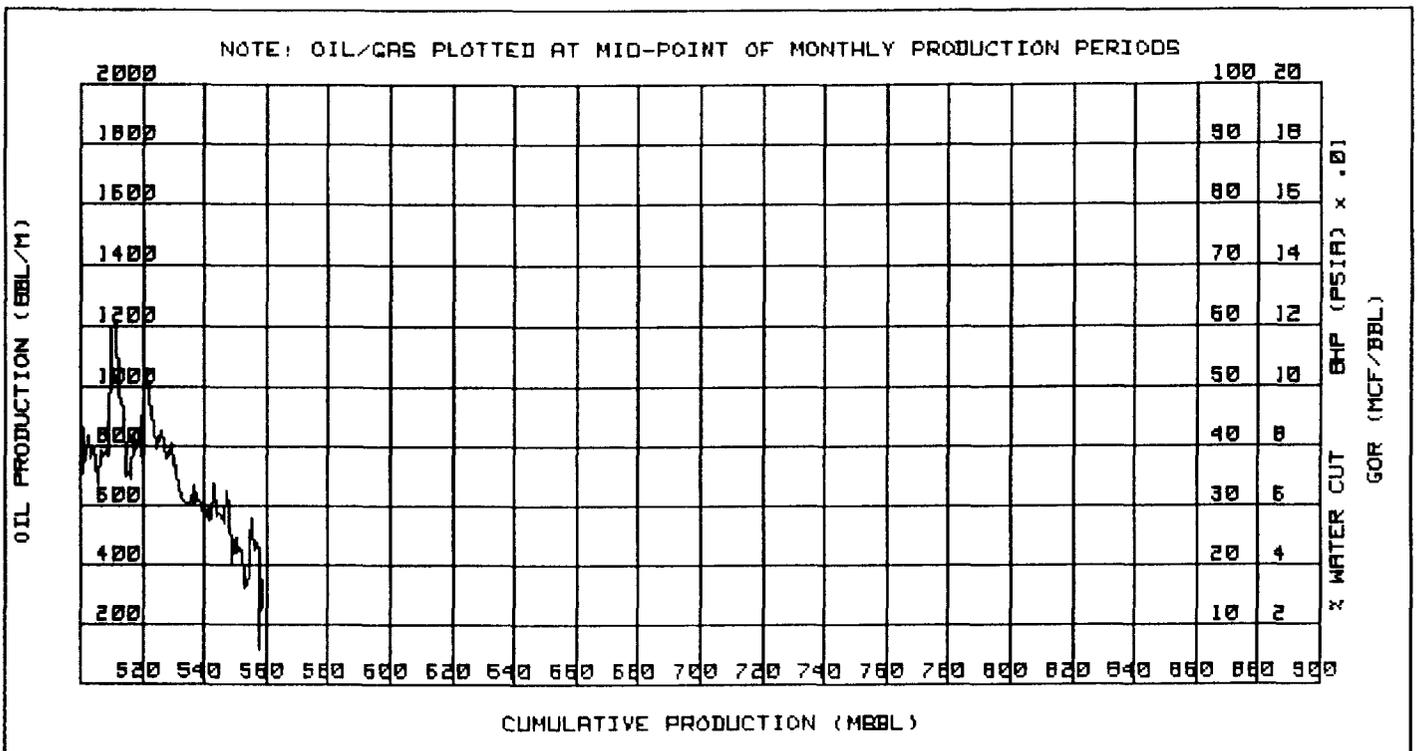
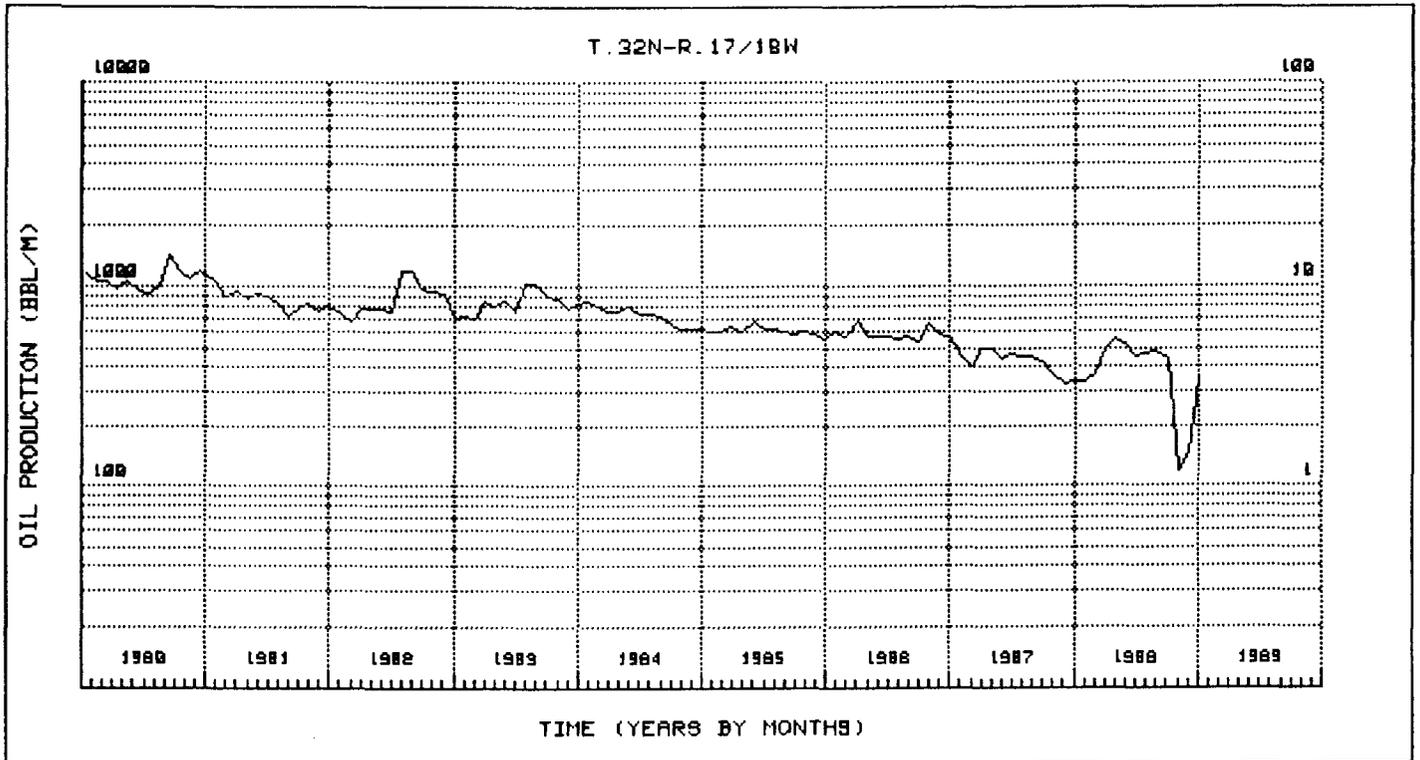
Oper.: FIELD STUDY
API #: 3004560006.00

SAN JUAN, NM
Record number 66

Cumulative production for period 6-1973 --> 12-1988	OIL: 558,368 BBL	WATER: 0 BBL
	GAS: 0 MCF	Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.:	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
OIL (BBL)	460	476	442	120	147	352
GAS (MCF)	0	0	0	0	0	0
WATER (BBL)	0	0	0	0	0	0

OIL OR GAS PRODUCTION ——— COR ——— % WATER CUT ——— BHP OR BHP/Z *——*



Lease: NAVAJO C 1 - 6
 Form.: GALLUP

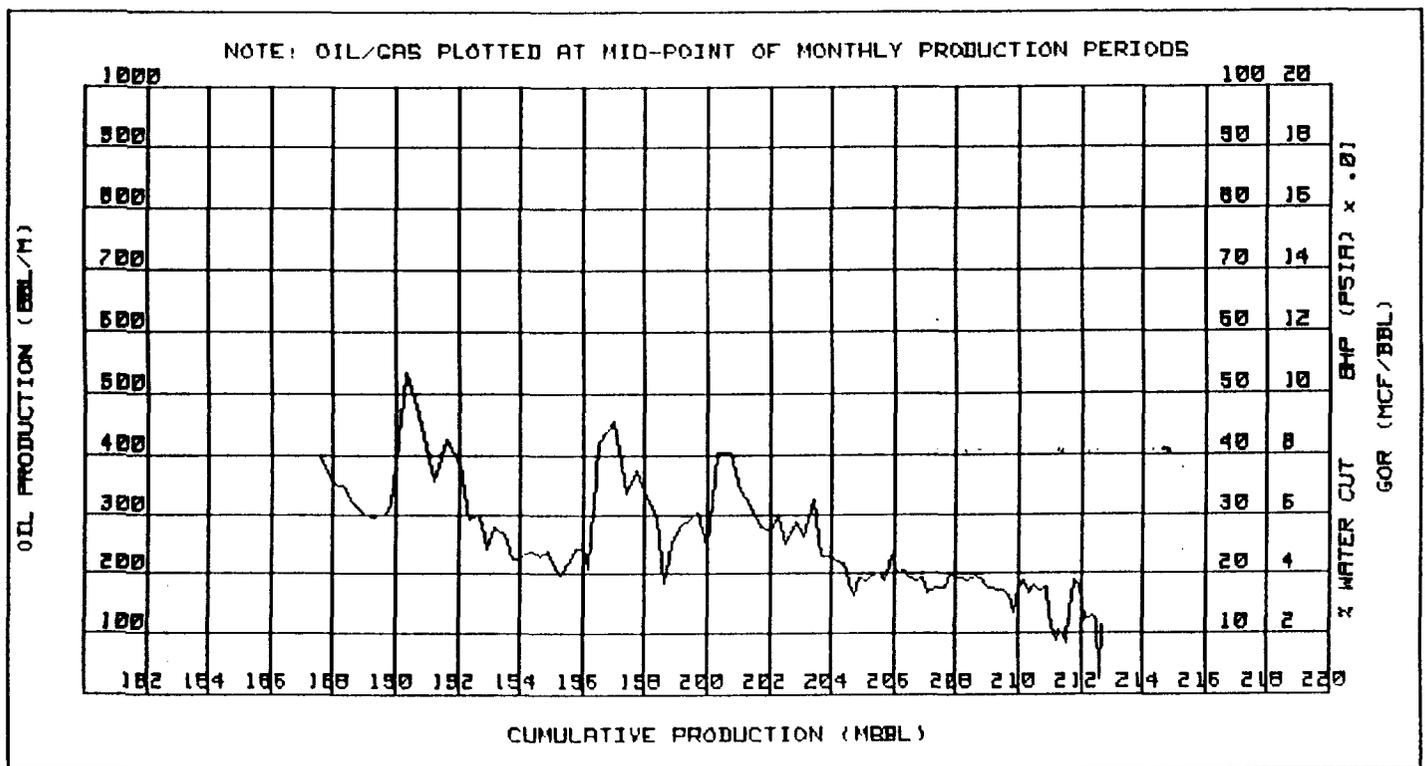
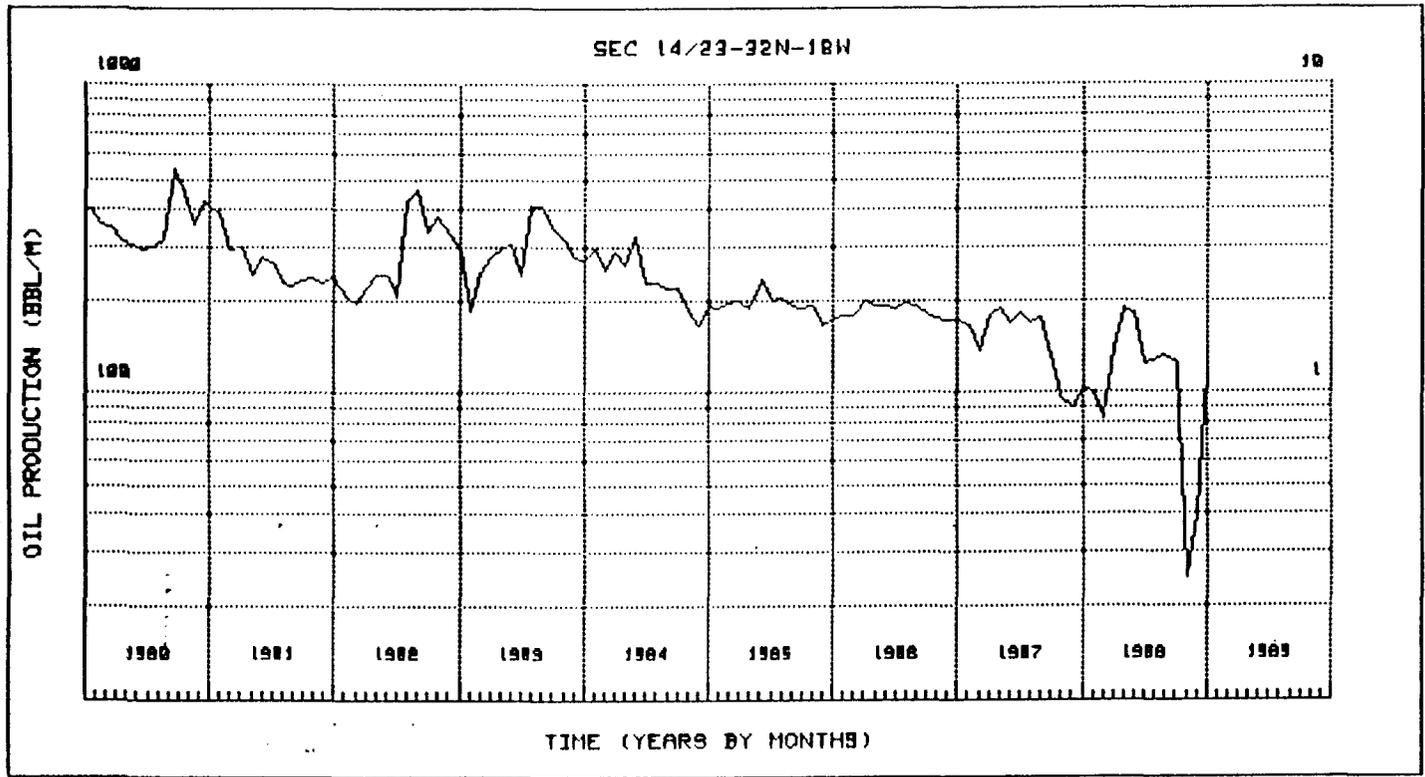
Oper.: GRAND RES. INC.
 API #: 3004560002.00

SAN JUAN, NM
 Record number 27

Cumulative production for period 6-1973 --> 12-1988
 OIL: 212,748 BBL
 GAS: 0 MCF
 WATER: 0 BBL
 Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.:		JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
OIL (BBL)		126	131	124	25	40	116
GAS (MCF)		0	0	0	0	0	0
WATER (BBL)		0	0	0	0	0	0

OIL OR GAS PRODUCTION — COR — % WATER CUT — — BHP OR BHP/Z * — *



Field Name : MESA GALLUP
 Formation : GALLUP
 Date of First Production : 6- 73
 Oil Purchaser : -

Date of First Recorded Data : 1- 80
 Oil Cum as of Above Date : 187380

Operator : GRAND RES. INC.
 Lease : NAVAJO C 1 - 6
 Location : SEC 14/23-32N-18W
 API/RRC/DIC: 3004560002.00
 SAN JUAN CO., NM
 Record Number = 27

File Name : P30045:55

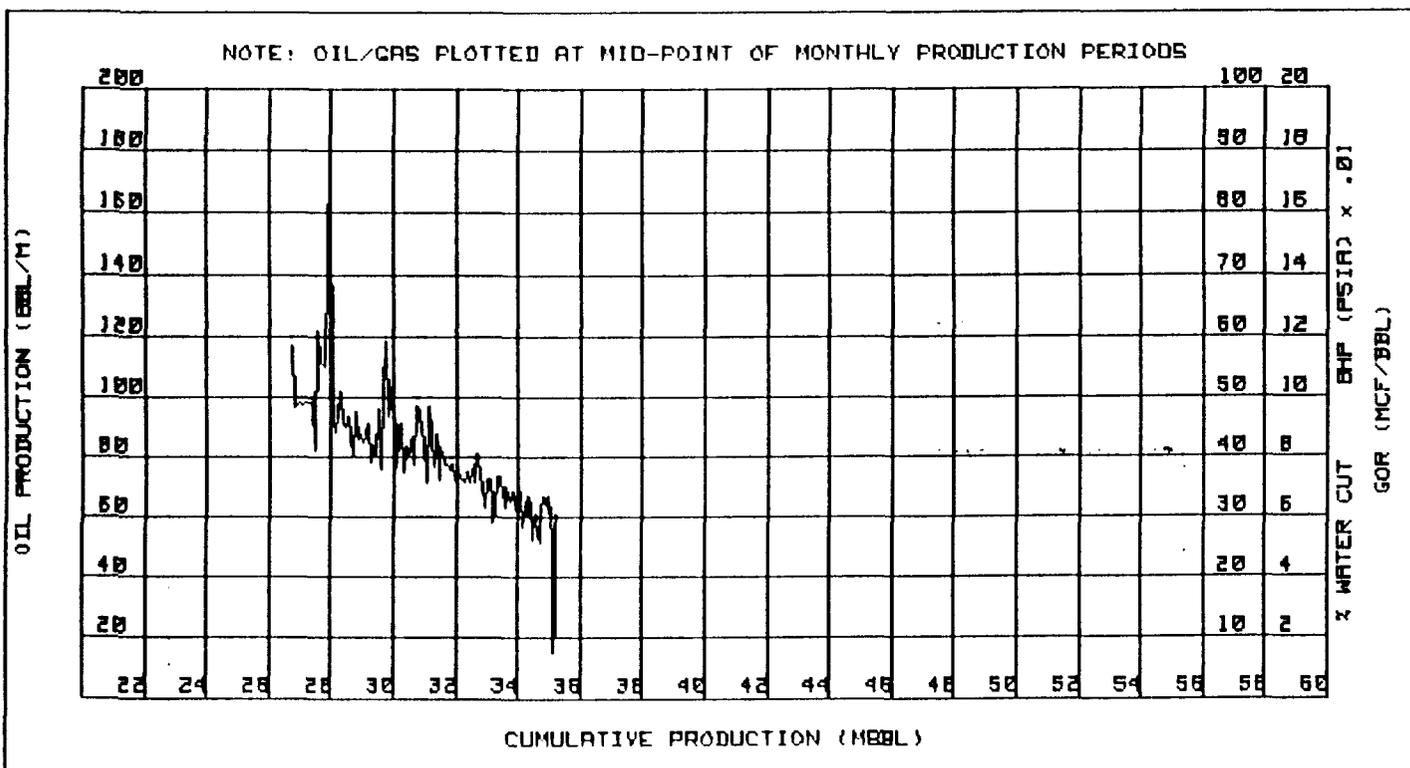
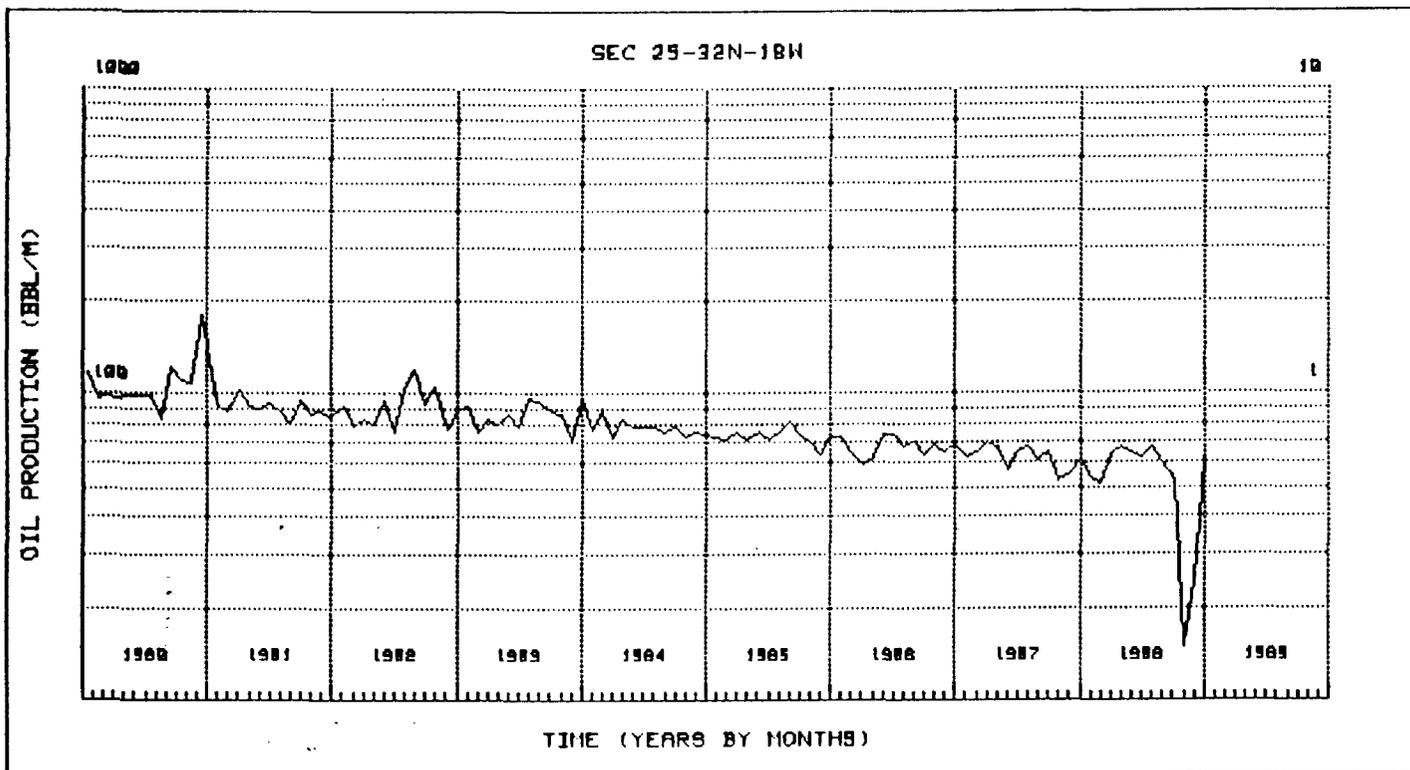
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR TOTAL	CUM.
80 OIL B/M	399	357	353	321	308	297	300	319	535	451	361	427	4428	191808
81 OIL B/M	388	295	304	245	281	270	229	228	234	240	230	239	3183	194991
82 OIL B/M	211	196	220	243	242	209	424	458	338	377	332	296	3546	198537
83 OIL B/M	185	251	280	294	306	246	408	408	342	320	281	276	3597	202134
84 OIL B/M	297	254	288	264	325	232	231	223	220	185	165	193	2877	205011
85 OIL B/M	191	197	200	191	233	202	207	192	189	194	167	174	2337	207348
86 OIL B/M	179	178	202	193	193	189	196	192	183	176	173	174	2228	209576
87 OIL B/M	165	137	178	191	168	183	171	175	131	98	90	105	1792	211368
88 OIL B/M	100	84	139	189	182	124	126	131	124	25	40	116	1380	212748

Lease: AZTEC NAVAJO A4&5 Oper.: GRAND RES. INC. SAN JUAN, NM
 Form.: GALLUP API #: 3004560000.00 Record number 1

Cumulative production for OIL: 35,243 BBL WATER: 0 BBL
 period 6-1973 --> 12-1988 GAS: 0 MCF Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.: JUL. AUG. SEP. OCT. NOV. DEC.
 OIL (BBL) 67 60 53 15 25 61
 GAS (MCF) 0 0 0 0 0 0
 WATER (BBL) 0 0 0 0 0 0

OIL OR GAS PRODUCTION — COR ——— % WATER CUT — — BHP OR BHP/Z * — * — *



Field Name : MESA GALLUP
 Formation : GALLUP
 Date of First Production : 6- 73
 Oil Purchaser : -

Date of First Recorded Data : 1- 80
 Oil Cum as of Above Date : 26704

Operator : GRAND RES. INC.
 Lease : AZTEC NAVAJO A4&5
 Location : SEC 25-32N-18W
 API/RRC/DTC: 3004560000.00
 SAN JUAN CO., NM
 Record Number = 1

File Name : P30045:55

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR TOTAL	CUM
80 OIL B/M	117	97	99	98	99	99	99	83	122	112	110	181	1316	28020
81 OIL B/M	93	89	102	91	90	94	88	80	95	86	88	85	1081	29101
82 OIL B/M	91	79	84	80	96	76	104	119	94	105	77	88	1093	30194
83 OIL B/M	91	75	84	80	86	78	97	96	88	86	72	97	1030	31224
84 OIL B/M	77	88	73	84	79	78	78	76	78	73	76	74	934	32158
85 OIL B/M	73	72	75	72	76	72	75	81	74	70	64	73	877	33035
86 OIL B/M	73	65	59	63	74	74	67	70	64	69	65	69	812	33847
87 OIL B/M	63	65	70	68	57	65	67	61	65	53	56	61	751	34598
88 OIL B/M	54	52	64	67	65	62	67	60	53	15	25	61	645	35243

Lease: NAVAJO #3 - 12
 Form.: GALLUP

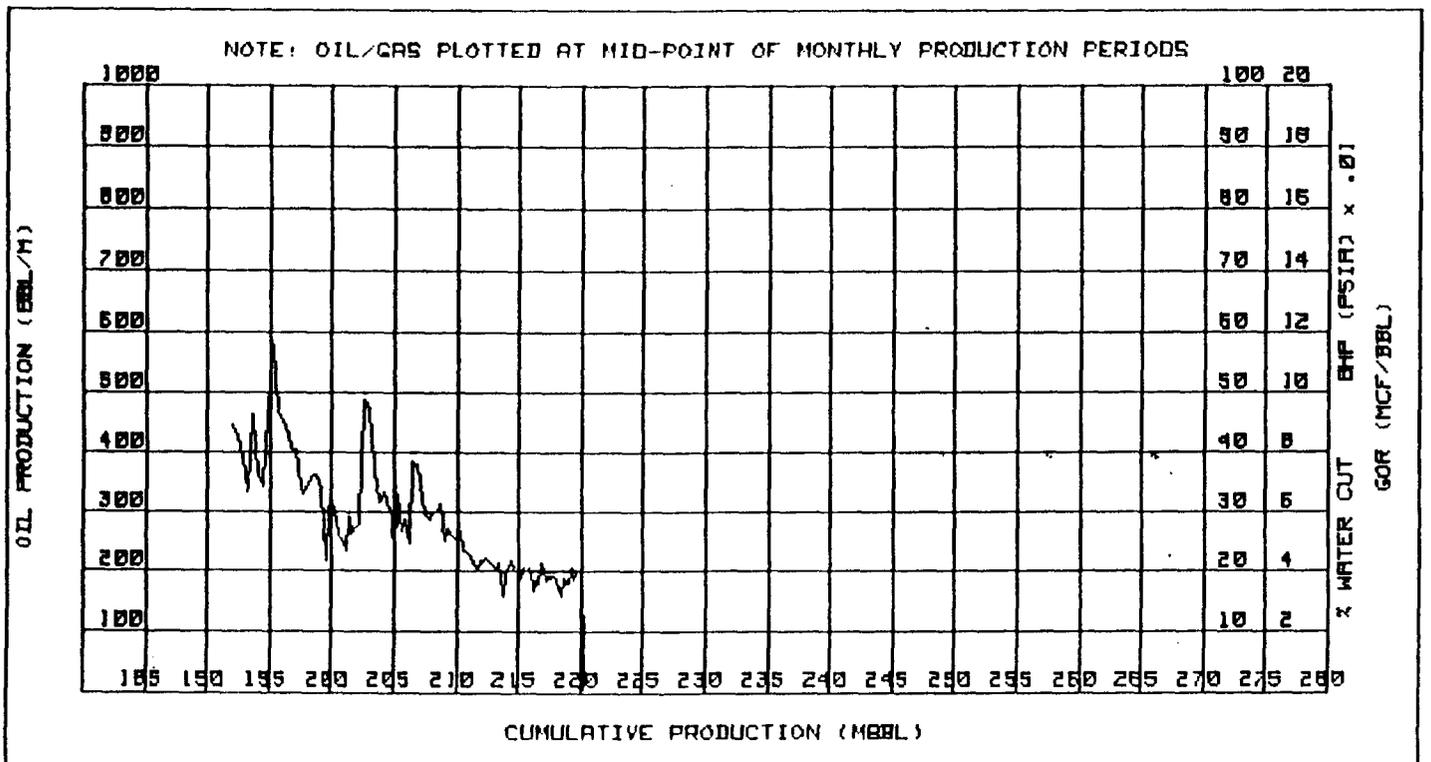
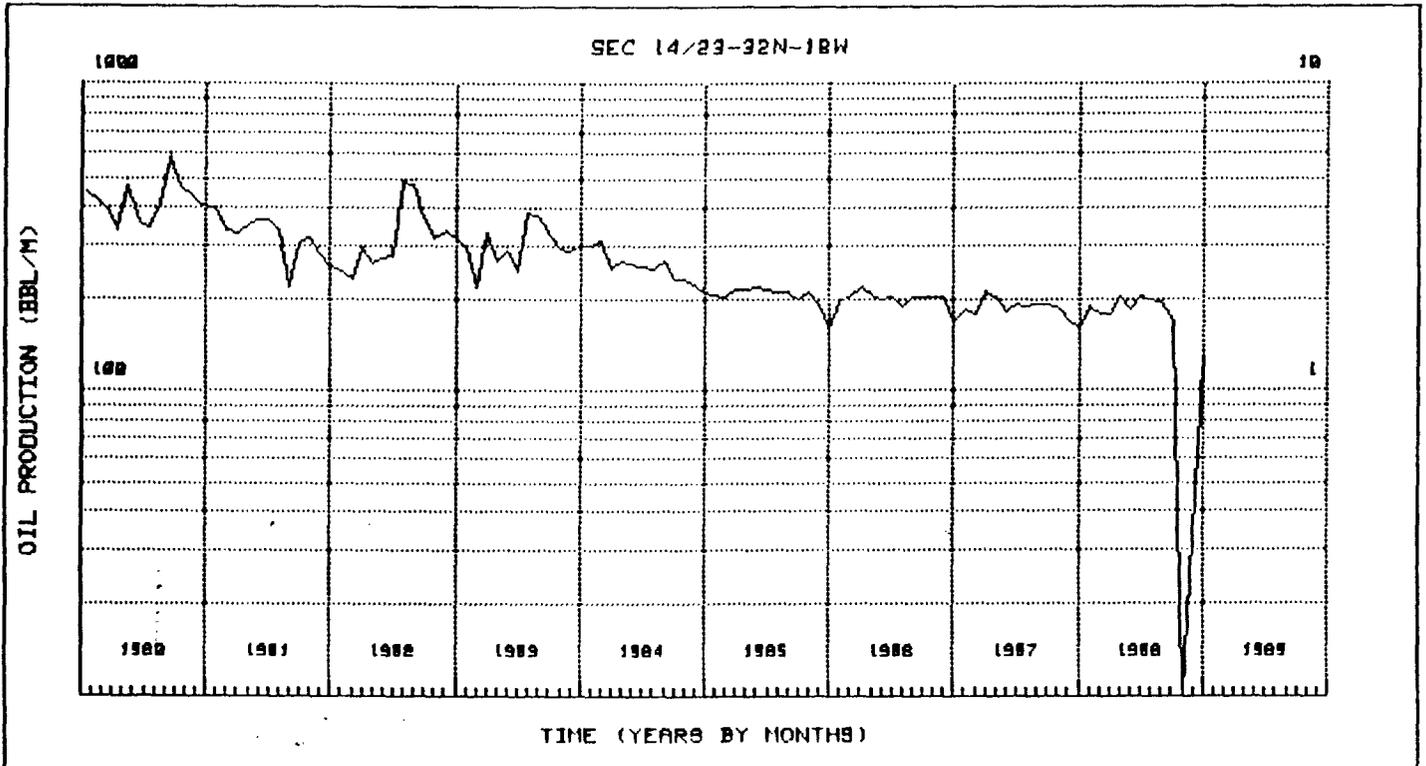
Oper.: GRAND RES. INC.
 API #: 3004560001.00

SAN JUAN, NM
 Record number 14

Cumulative production for OIL: 220,392 BBL WATER: 0 BBL
 period 6-1973 --> 12-1988 GAS: 0 MCF Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.:		JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
OIL (BBL)		203	198	171	10	33	127
GAS (MCF)		0	0	0	0	0	0
WATER (BBL)		0	0	0	0	0	0

OIL OR GAS PRODUCTION — GOR ——— % WATER CUT — — BHP OR BHP/Z * — * — *



Lease: 6 NAVAJO LSES
 Form.: GALLUP

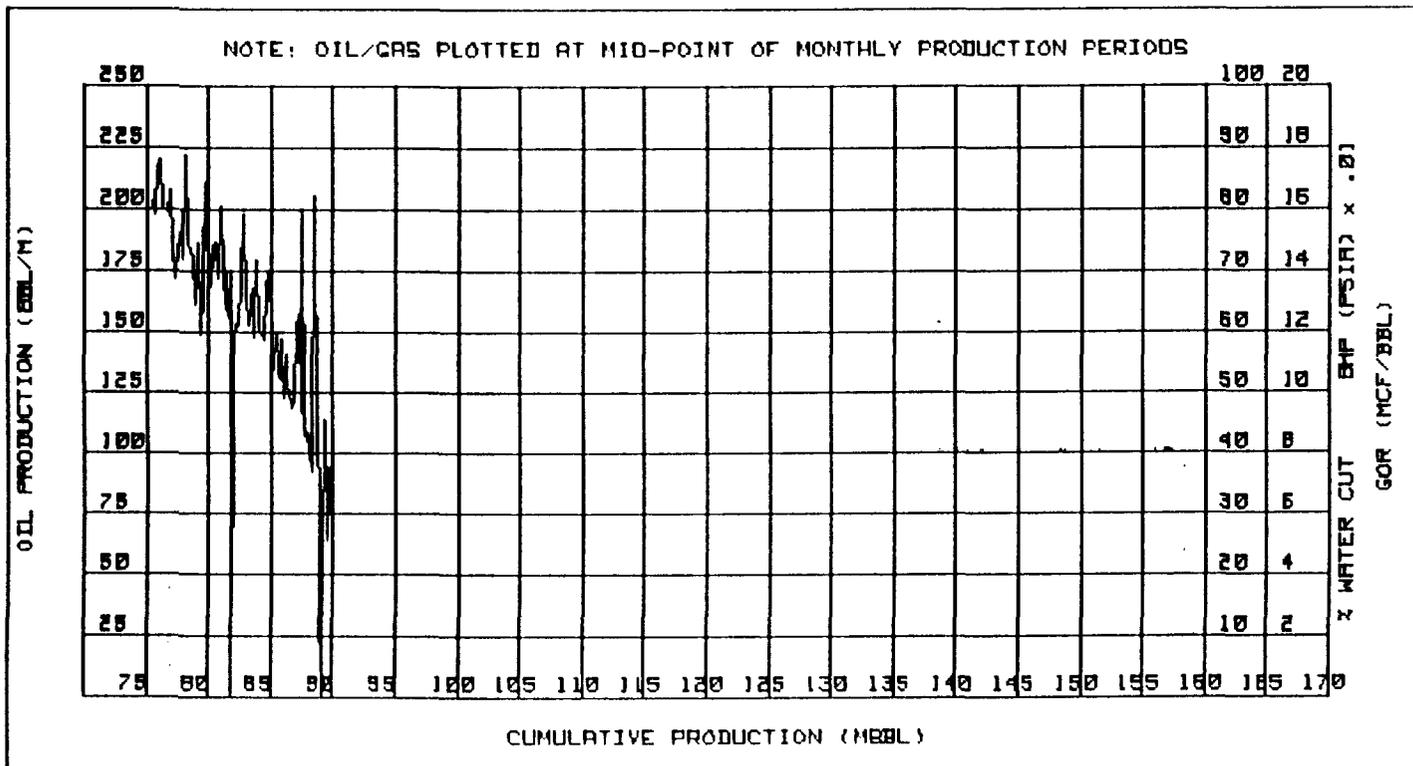
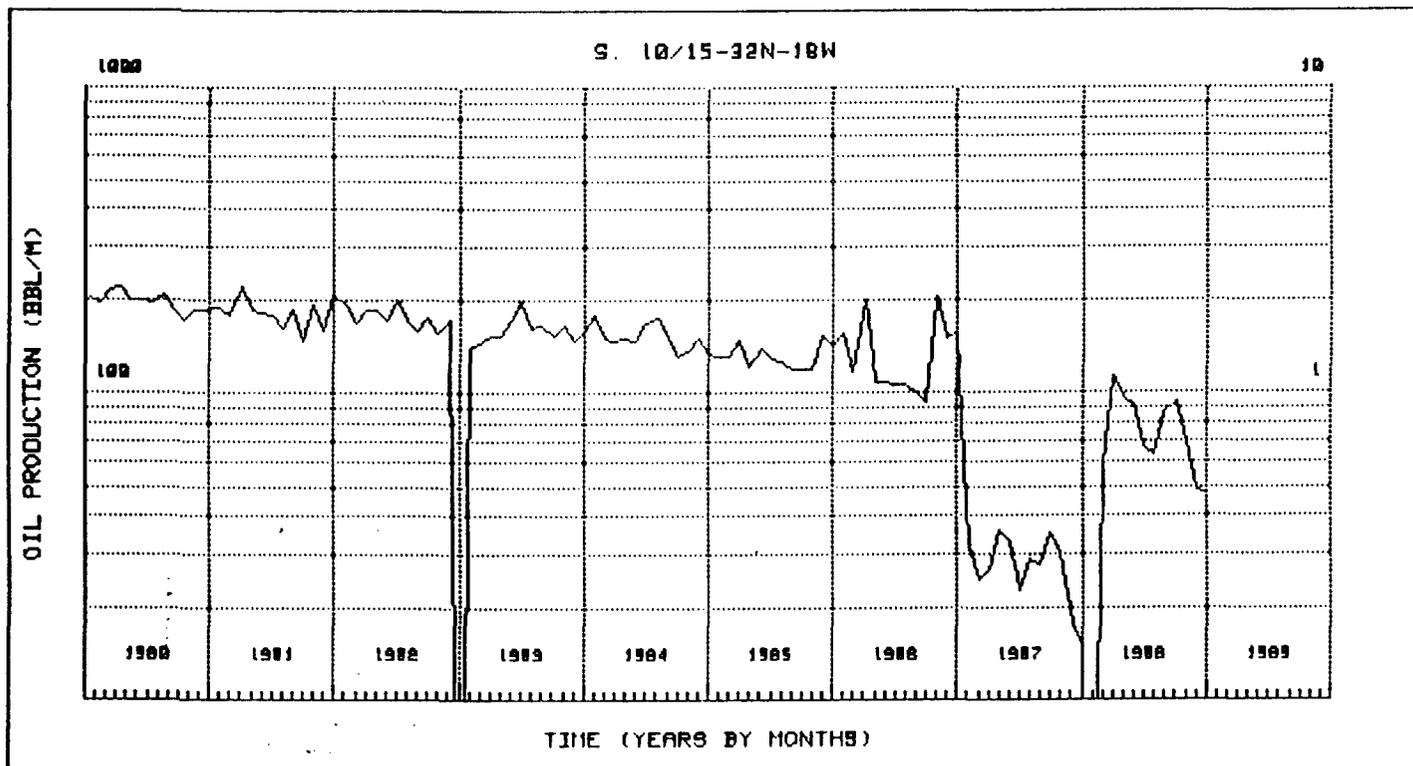
Oper.: ARI-MEX
 API #: 3004560003.00

SAN JUAN, NM
 Record number 40

Cumulative production for OIL: 89,985 BBL WATER: 0 BBL
 period 6-1973 --> 12-1988 GAS: 0 MCF Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.:		JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
OIL (BBL)		64	87	94	70	49	48
GAS (MCF)		0	0	0	0	0	0
WATER (BBL)		0	0	0	0	0	0

OIL OR GAS PRODUCTION ——— GOR % WATER CUT — — BHP OR BHP/Z * — * — *



Field Name : MESA GALLUP
Formation : GALLUP
Date of First Production : 6- 73
Oil Purchaser : -

Date of First Recorded Data : 1- 80
Oil Cum as of Above Date : 75339

Operator : ARI-MEX
Lease : 6 NAVAJO LSES
Location : S. 10/15-32N-18W
API/RRR/OTC: 3004560003.00
SAN JUAN CO., NM
Record Number = 40

File Name : P30045:55

		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR TOTAL	CUM
80	OIL B/M	204	198	218	220	200	201	199	208	185	172	186	187	2378	77717
81	OIL B/M	191	181	222	188	183	181	162	187	149	193	159	211	2207	79924
82	OIL B/M	194	169	186	187	172	202	174	160	176	157	174	0	1951	81875
83	OIL B/M	139	146	154	154	172	198	162	165	154	166	148	159	1917	83792
84	OIL B/M	180	150	149	151	147	168	175	150	133	137	150	135	1825	85617
85	OIL B/M	132	131	147	123	141	129	126	119	120	121	155	142	1586	87203
86	OIL B/M	158	117	201	108	109	106	107	100	93	206	150	157	1612	89815
87	OIL B/M	32	25	27	36	33	23	29	28	35	30	18	15	331	89146
88	OIL B/M	0	58	114	97	91	67	64	87	94	70	49	48	839	89985

Lease: HORSESHOE #2E
 Form.: GALLUP

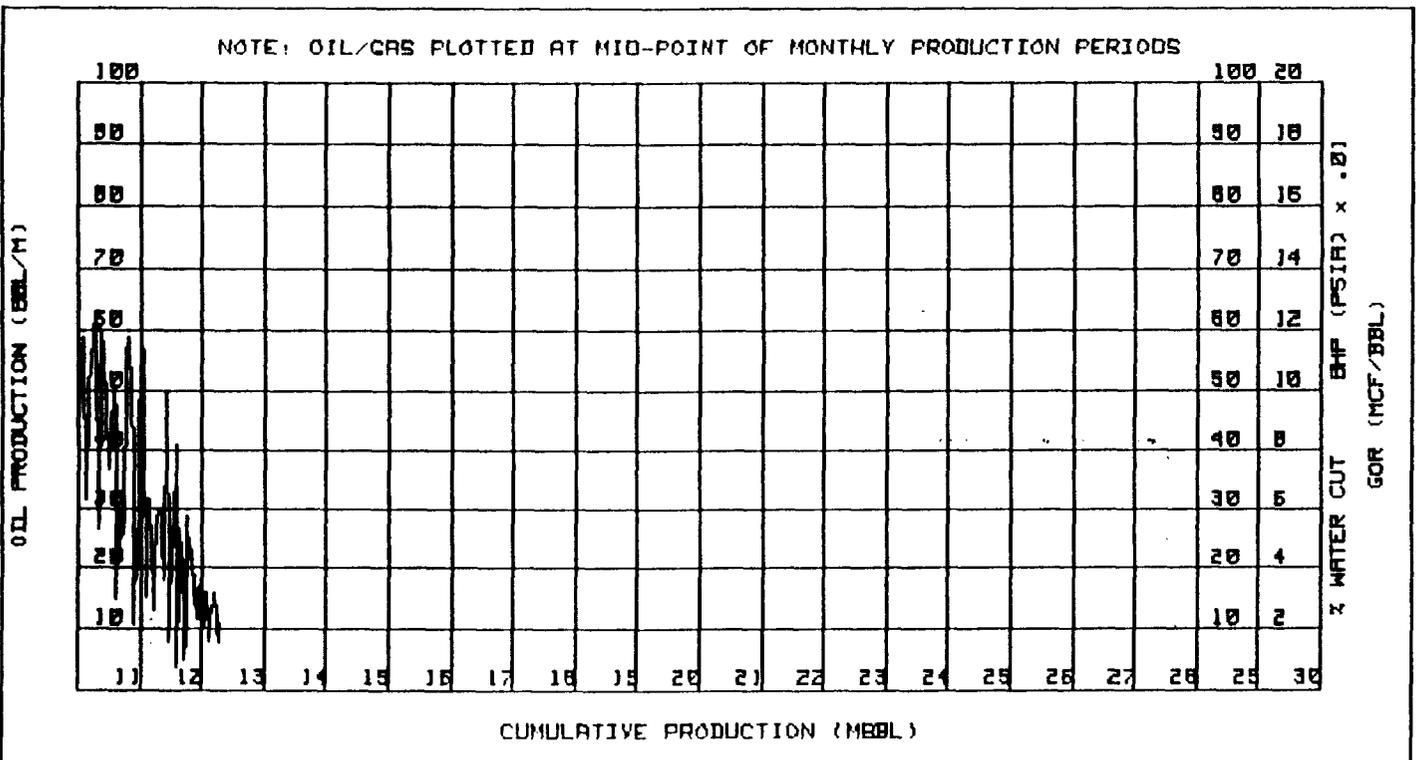
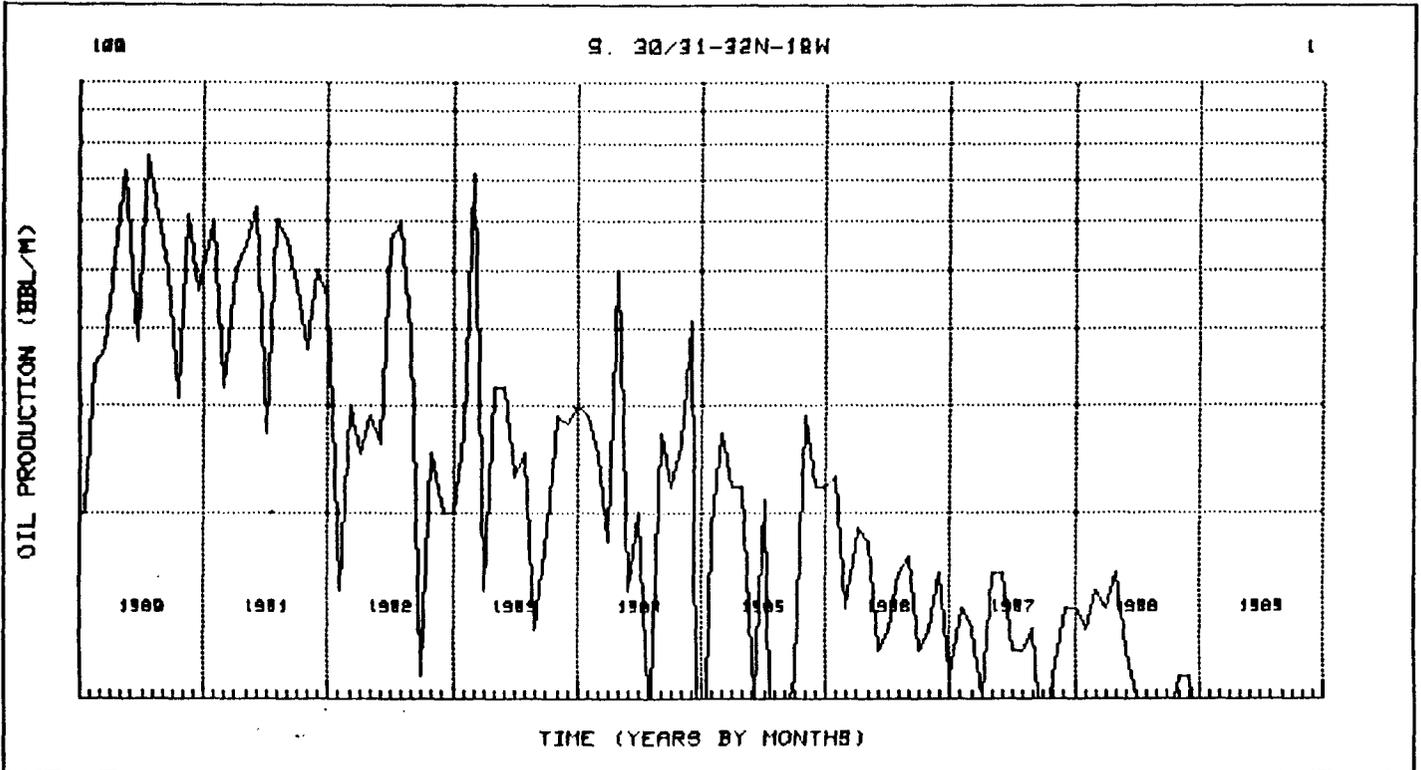
Oper.: DUGAN PROD.
 API #: 3004560004.00

SAN JUAN, NM
 Record number 53

Cumulative production for period 1-1973 --> 12-1988
 OIL: 12,297 BBL
 GAS: 0 MCF
 WATER: 0 BBL
 Cum GOR: 0.00 MCF/BBL

Last 6 Mos. Prodctn.:						
	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.
OIL (BBL)	10	10	8	11	11	8
GAS (MCF)	0	0	0	0	0	0
WATER (BBL)	0	0	0	0	0	0

OIL OR GAS PRODUCTION ——— GOR % WATER CUT — — — BHP OR BHP/Z * — * — *



Field Name : MESA GALLUP
 Formation : GALLUP
 Date of First Production : 1- 73
 Oil Purchaser : -

Date of First Recorded Data : 1- 80
 Oil Cum as of Above Date : 9459

Operator : DUGAN PROD.
 Lease : HORSESHOE #2E
 Location : S. 30/31-32N-18W
 API/RRC/DIC: 3004560004.00
 SAN JUAN CO., NM
 Record Number = 53

File Name : P30045:55

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR TOTAL	CUM
80 OIL B/M	20	35	37	52	72	38	76	61	50	31	61	46	579	10038
81 OIL B/M	59	32	50	55	63	27	60	56	47	37	50	45	581	10619
82 OIL B/M	15	30	25	29	26	56	59	39	11	25	20	20	355	10974
83 OIL B/M	27	71	15	32	32	23	25	13	19	29	28	30	344	11318
84 OIL B/M	29	25	18	50	15	20	8	27	22	26	41	4	285	11603
85 OIL B/M	19	27	22	22	10	21	5	9	11	29	22	22	219	11822
86 OIL B/M	23	14	19	18	12	13	16	17	12	13	16	11	184	12006
87 OIL B/M	14	13	10	16	16	12	12	13	8	11	14	14	153	12159
88 OIL B/M	13	15	14	16	12	10	10	10	8	11	11	8	138	12297

APPENDIX 2

WELL DATA

WELL NAME S-T-R ELEVATION CUM OIL(12/88)	API NO X TOP SAND(SS) IBOPD	OPERATOR Y BASE SAND(SS) BOPM(12/88)	WELL CODE COMP DATE NET FT 9**	TOTAL DEPTH POROSITY(PCT) ALL	ELEVATION AVG K (md)	FORMATION KH (md-ft)
HORSESHOE #2-E 30-32N-17W 5525 12.28	- 330 4467 10	DUGAN PROD 3210 4475 8	0 6-17-64 8 9**	1175 - ALL	5525 - -	GAL 150
HORSESHOE #B 1-H- 31-32N-17W 5490 3.0	4620 4420 4	DUGAN PROD 3300 4412 0	G 3-29-64 8 9**	1145 - ALL	5490 - -	GAL 60
NAVAJO #2 10-32N-18W 5253 0	30-045-11498 350 4157	HAYNES & VT DRLGDH 540 4139 0	5-11-64 0	1183 - ALL	5253 - -	GAL 0
NAVAJO #5-0 10-32N-18W 5810 0	30-045-20111 3300 4146	ARI-MEX 440 4132 0	G 10-4-67 14	1873 - ALL	5810 12.96	GAL 700
NAVAJO #6 13-32N-18W 5424 0	- 760 4024	EXPL DRLG 365 4018 0	DH 1-6-62 6	1372 9 ALL	5424 8	GAL 49
NAVAJO 'C' #7-M 14-32N-18W 5338 0	- 990 4064	EXPL DRLG 990 4050 0	DH 4-69 6	1327 - ALL	5338 -	GAL 60
NAVAJO TRIBAL C 14-32N-18W 5347 25.89	- 2970 4040 36	MURPHY OIL CORP 330 4031 4	D 4-3-62 9 9**	1380 13.7 ALL	5347 62	GAL 556
NAVAJO TRIBAL C 14-32N-18W 5724 48.66	30-045-20251 330 4085 84	EXPL DRLG 2310 4060 90	0 3-31-68 23 9**	1762 17 ALL	5724 214	GAL 5555

WELL NAME	API NO	OPERATOR	WELL CODE	TOTAL DEPTH	ELEVATION	FORMATION
S-T-R	X	Y	COMP DATE	PROSITY(PCT)	AVG K (md)	KH (md-ft)
ELEVATION	TOP SAND(SS)	BASE SAND(SS)	NET FT	ALL		
CUM OIL(12/88)	IBOPD	BOPM(12/88)	9**			
NAVAJO #4-J	-	AMALGAMATED PET	CWI			
14-32N-18W	3570	1650	11-20-61	1365	5347	GAL
5347	4036	4025	3	12.1	178	529
3.7	6	0	9**	ALL		
NAVAJO TRIBAL C	30-045-20430	EXPL DRLG	0			
14-32N-18W	1720	650	3-27-69	1310	5306	GAL
5306	4062	4040	17	14.5	65	1112
22.5	77	22	9**	ALL		
NAVAJO C #1-H	30-045-11472	ARI MEX	CWI			
15-32N-18W	4595	3580	5-2-64	1276	5311	GAL
5311	4089	4071	18	-	133	2400
48.69	32	40	9**	ALL		
NAVAJO #3-A	30-045-11478	ARI MEX	0			
15-32N-18W	4530	4335	5-30-64	1312	5360	GAL
5360	4110	4100	10	-	-	215
19.2	19	8	9**	ALL		
NAVAJO #7-C	30-045-20409	AAA FISHING	TOOLDH			
15-32N-18W	2310	4950	2-24-69	1295	5390	GAL
5390	4196	4192	0	0	0	0
0		8		ALL		
NAVAJO 'B' #1-G	30-045-20621	AAA FISHING	TOOLDH			
15-32N-18W	3780	3660	12-18-70	1285	5278	GAL
5278	4080	4076	6	0	0	0
0		8		ALL		
NAVAJO #4-J	30-045-20208	AAA FISHING	TOOLDH			
15-32N-18W	3830	2510	1-24-68	1414	5422	GAL
5422	4167	0	0	0	0	0
0		8		ALL		
NAVAJO 'B' #3-B	30-045-20627	ARI MEX	0			
15-32N-18W	3430	4130	3-27-70	1275	5318	GAL
5318	4120	4114	6	-	-	40
6.8	62	5	9**	ALL		

WELL NAME	API NO	OPERATOR	WELL CODE	TOTAL DEPTH	ELEVATION	FORMATION
S-I-R	X	Y	COMP DATE	POROSIY(PCT)	AVG K (Md)	KH (Md-ft)
ELEVATION	TOP SAND(SS)	BASE SAND(SS)	NET FT	ALL		
CUM OIL(12/88)	IBOPD	BOPM(12/88)	9**			
NAVAJO 'B' #2-I	30-045-20622	ARI MEX	0	1718	5696	GAL
15-32N-18W	4950	2310	8-15-70	-	-	50
5696	4084	4072	12	-	-	
3.5	-	1	9**	ALL	-	
NAVAJO #6-H	30-045-20271	ARI MEX	0	1360	5374	GAL
15-32N-18W	4950	3030	5-16-68	-	-	400
5374	4092	4070	.22	-	-	
13.0	-	0	9**	ALL	-	
NAVAJO #8-A	-	EXPL DRLG	0	1445	5421	GAL
23-32N-18W	4950	4330	2-15-62	-	-	36
5421	4043	4031	13	10.6	2.8	
31.4	23	0	9**	ALL	-	
NAVAJO #5	-	EXPL DRLG	DH	-	5375	GAL
23-32N-18W	3345	2135	1-3-62	-	-	0
5375	-	-	0	-	-	
0	-	0		ALL	-	
NAVAJO #11-B	-	EXPL DRLG	CWI	1436	5416	GAL
23-32N-18W	3630	4950	1-28-62	-	-	202
5416	4042	4026	6	11.8	34	
56.38	87	14	9**	ALL	-	
NAVAJO TRIBAL C	-	TEX PACIFIC	0	1478	5461	GAL
23-32N-18W	4950	3630	3-22-62	-	-	900
5461	4054	4044	10	-	-	
47.27	89	0	9**	ALL	-	
NAVAJO #7-E	-	EXPL DRLG	0	1482	5565	GAL
24-32N-18W	330	2970	1-19-62	-	-	1381
5565	4155	4136	13	13.7	106	
70.88	88	20	9**	ALL	-	
NAVAJO TRIBAL C	-	TEX PACIFIC	0	1300	5432	GAL
24-32N-18W	660	2310	3-6-62	-	-	1000
5432	4211	4199	13	-	-	
47.20	92	0	9**	ALL	-	

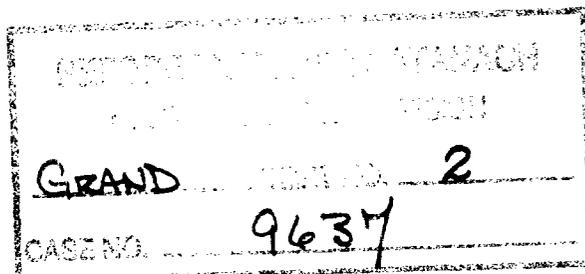
WELL NAME	API NO	OPERATOR	WELL CODE	TOTAL DEPTH	ELEVATION	FORMATION
S-T-R	X	Y	COMP DATE	PROSITY(PCT)	AVG K (md)	KH (md-ft)
ELEVATION	TOP SAND(SS)	BASE SAND(SS)	NET FT	ALL		
CUM OIL(12/88)	IBOPD	BOPM(12/88)	9**			
NAVAJO TRIBAL C	-	MURPHY OIL	0	1510	5702	GAL
24-32N-18W	1680	1890	4-15-62	14.2	121	1214
5702	4255	4242	10	ALL		
21.24	28	0	9**			
NAVAJO #12-F	-	EXPL DRLG	0	-	5685	GAL
24-32N-18W	1780	2990	3-25-62	15.6	23	93
5685	4164	4155	4	ALL		
1.51	8	0	9**			
NAVAJO #3-N	-	AMALGAMATED	CWI	1163	5451	GAL
24-32N-18W	1980	660	8-15-61	-	-	500
5451	4347	4328	19	ALL		
56.55	49	61	9**			
AZTEC NAVAJO 'A'	-	EXPL DRLG(TEXACOO		1120	5468	GAL
25-32N-18W	3300	4680	11-11-61	-	-	150
5468	4387	4381	12	ALL		
25.56	8	61	9**			
TRACY #1	30-045-20389	WILBUR STEVENS	DH	1610	5471	GAL
25-32N-18W	1610	330	1-10-79	-	-	0
5471	4540	-	0	ALL		
0		61				
NAVAJO #6	-	R.L. BAYLESS	DH	1093	-	GAL
25-32N-18W	3300	3300	7-2-64	-	-	0
-	-	-	0	ALL		
0		61				
S. BLUE HILLS #1	-	ZOLLER & DANNEBEDH		1573	5449	GAL
25-32N-18W	3300	2770	7-26-65	-	-	0
5449	-	-	0	ALL		
0		61				
TEXAS NAVAJO 'A'	-	AZTEC O & G	DH	1616	5498	GAL
25-32N-18W	4745	790	11-14-59	-	-	0
5498	-	-	0	ALL		
0		61				

WELL NAME	API NO	OPERATOR	WELL CODE	TOTAL DEPTH	ELEVATION	FORMATION
S-T-R	X	Y	COMP DATE	POROSITY(PCT)	AVG K (MD)	KH (MD-FT)
ELEVATION	TOP SAND(SS)	BASE SAND(SS)	NET FT	ALL		
CUM OIL(12/88)	IBOPD	BOPM(12/88)	9**			
AZTEC NAVAJO 'A'		EXPL DRLG (TEXACO)				
25-32N-18W	1980	4670	2-1-62	1062	5426	GAL
5426	4381	4387	7	-	-	70
9.7	5	0	9**	ALL		
AZTEC & NAVAJO '30-045-11151		TEXACO INC	G			
36-32N-18W	660	660	5-8-62	8150	5364	GAL
5364	-	0	-	-	-	-
	5			ALL		
TRIBAL #1-30		BAUNGARTNER	DH			
30-32N-17W	3300	3300	-	-	-	GAL
	-	-	0	-	-	-
	-	-	9**	ALL		
NAVAJO C #1 LOC		GRAND RSC	L			
14-32N-18W	1900	1900	-	-	-	GAL
	-	-	17	-	-	-
	-	-	9**	ALL		
AZTEC NAVAJO A #		GRAND RSC	L			
25-32N-18W	4400	4400	-	-	-	GAL
	-	-	12	-	-	-
	-	-	9**	ALL		
NAVAJO C #3 LOC		GRAND RSC	L			
23-32N-18W	4800	2150	-	-	-	GAL
	-	-	4	-	-	-
	-	-	9**	ALL		
NAVAJO C #4 LOC		GRAND RSC	L			
14-32N-18W	400	3050	-	-	-	GAL
	-	-	19	-	-	-
	-	-	9**	ALL		

APPLICATION FOR AUTHORIZATION TO INJECT

- I. Purpose: Secondary Recovery Pressure Maintenance Disposal Storage
Application qualifies for administrative approval? yes no
- II. Operator: GRAND RESOURCES, INC.
Address: 2250 E. 73rd St., Ste 400
Contact party: MARVIN ROBINOWITZ Phone: (918) 492-2366
- III. Well data: Complete the data required on the reverse side of this form for each well proposed for injection. Additional sheets may be attached if necessary.
- IV. Is this an expansion of an existing project? yes no
If yes, give the Division order number authorizing the project _____.
- V. Attach a map that identifies all wells and leases within two miles of any proposed injection well with a one-half mile radius circle drawn around each proposed injection well. This circle identifies the well's area of review.
- VI. Attach a tabulation of data on all wells of public record within the area of review which penetrate the proposed injection zone. Such data shall include a description of each well's type, construction, date drilled, location, depth, record of completion, and a schematic of any plugged well illustrating all plugging detail.
- VII. Attach data on the proposed operation, including:
1. Proposed average and maximum daily rate and volume of fluids to be injected;
 2. Whether the system is open or closed;
 3. Proposed average and maximum injection pressure;
 4. Sources and an appropriate analysis of injection fluid and compatibility with the receiving formation if other than reinjected produced water; and
 5. If injection is for disposal purposes into a zone not productive of oil or gas at or within one mile of the proposed well, attach a chemical analysis of the disposal zone formation water (may be measured or inferred from existing literature, studies, nearby wells, etc.).
- VIII. Attach appropriate geological data on the injection zone including appropriate lithologic detail, geological name, thickness, and depth. Give the geologic name, and depth to bottom of all underground sources of drinking water (aquifers containing waters with total dissolved solids concentrations of 10,000 mg/l or less) overlying the proposed injection zone as well as any such source known to be immediately underlying the injection interval.
- IX. Describe the proposed stimulation program, if any.
- X. Attach appropriate logging and test data on the well. (If well logs have been filed with the Division they need not be resubmitted.)
- XI. Attach a chemical analysis of fresh water from two or more fresh water wells (if available and producing) within one mile of any injection or disposal well showing location of wells and dates samples were taken.
- XII. Applicants for disposal wells must make an affirmative statement that they have examined available geologic and engineering data and find no evidence of open faults or any other hydrologic connection between the disposal zone and any underground source of drinking water.
- XIII. Applicants must complete the "Proof of Notice" section on the reverse side of this form.
- XIV. Certification
I hereby certify that the information submitted with this application is true and correct to the best of my knowledge and belief.
Name: MARVIN ROBINOWITZ Title PRESIDENT
Signature: _____ Date: _____
- * If the information required under Sections VI, VIII, X, and XI above has been previously submitted, it need not be duplicated and resubmitted. Please show the date and circumstance of the earlier submittal.

DISTRIBUTION: Original and one copy to Santa Fe with one copy to the appropriate Division district office.



III. WELL DATA

A. The following well data must be submitted for each injection well covered by this application. The data must be both in tabular and schematic form and shall include:

- (1) Lease name; Well No.; location by Section, Township, and Range; and footage location within the section.
- (2) Each casing string used with its size, setting depth, sacks of cement used, hole size, top of cement, and how such top was determined.
- (3) A description of the tubing to be used including its size, lining material, and setting depth.
- (4) The name, model, and setting depth of the packer used or a description of any other seal system or assembly used.

Division District offices have supplies of Well Data Sheets which may be used or which may be used as models for this purpose. Applicants for several identical wells may submit a "typical data sheet" rather than submitting the data for each well.

B. The following must be submitted for each injection well covered by this application. All items must be addressed for the initial well. Responses for additional wells need be shown only when different. Information shown on schematics need not be repeated.

- (1) The name of the injection formation and, if applicable, the field or pool name.
- (2) The injection interval and whether it is perforated or open-hole.
- (3) State if the well was drilled for injection or, if not, the original purpose of the well.
- (4) Give the depths of any other perforated intervals and detail on the sacks of cement or bridge plugs used to seal off such perforations.
- (5) Give the depth to and name of the next higher and next lower oil or gas zone in the area of the well, if any.

XIV. PROOF OF NOTICE

All applicants must furnish proof that a copy of the application has been furnished, by certified or registered mail, to the owner of the surface of the land on which the well is to be located and to each leasehold operator within one-half mile of the well location.

Where an application is subject to administrative approval, a proof of publication must be submitted. Such proof shall consist of a copy of the legal advertisement which was published in the county in which the well is located. The contents of such advertisement must include:

- (1) The name, address, phone number, and contact party for the applicant;
- (2) the intended purpose of the injection well; with the exact location of single wells or the section, township, and range location of multiple wells;
- (3) the formation name and depth with expected maximum injection rates and pressures; and
- (4) a notation that interested parties must file objections or requests for hearing with the Oil Conservation Division, P. O. Box 2088, Santa Fe, New Mexico 87501 within 15 days.

NO ACTION WILL BE TAKEN ON THE APPLICATION UNTIL PROPER PROOF OF NOTICE HAS BEEN SUBMITTED.

NOTICE: Surface owners or offset operators must file any objections or requests for hearing of administrative applications within 15 days from the date this application was mailed to them.

WELL IN AREA OF REVIEW

<u>OPERATOR</u>	<u>WELL NAME</u>	<u>SPUD DATE</u>	<u>LOCATION</u>	<u>SECTION</u>	<u>TOTAL DEPTH</u>	<u>COMPLETION INTERVAL</u>	<u>I.P. (BOPD)</u>	<u>FORMA-TION</u>	<u>CASING SIZE & DEPTH</u>	<u>CEMENT SXS</u>	<u>STATUS</u>
ZOLLER & DANNENBERG	BLUEHILL #1	7-26-65	2319FW-1980FE	25,32N-18W	1573	-	-	"	7" @ 30	circ.	P&A
GRAND NAV	"A" #4	11-8-61	B600FN-1980FE	25,32N-18W	1120	1051-66	8	GALLUP	4½" @ 1045	100	P
GRAND NAV	"A" #5	12-4-61	C610FN-1980FW	25,32N-18W	1062	1037-45	5	"	3½" @ 1057	100	P
RL BAYLESS	NAV #6	7-2-64	3300FS-3300FW	25,32N-18W	1093	-	-	"	5½" @ 52	circ.	P&A
<u>NAVAJO</u>											
GRAND	#3	8-10-61	N660FS-1980FW	24,32N-18W	1163	1110-26	49	"	4½" @ 1158	45	P
GRAND	#4	10-3-61	J1650FS-1710FE	14,32N-18W	1365	1315-23	6	"	4½" @ 1357	35	P
EXPL/DRILL/CO	#5	11-29-61	J2135FS-1935FE	23,32N-18W	1254	-	-	"	7" @ 30	circ.	P&A
EXPL/DRILL/CO	#6	12-30-61	365FS-760FW	13,32N-18W	1472	-	-	"	7" @ 66	circ.	P&A
GRAND	#7	1-13-62	E2310FN-330FW	24,32N-18W	1482	1423-38	88	"	4½" @ 1481	40	P
GRAND	#8	2-10-62	A950FN-330FE	23,32N-18W	1445	1383-94	88	"	4½" @ 1437	40	P
GRAND	#11	1-24-62	B330FN-1650FE	23,32N-18W	1438	1381-92	87	"	4½" @ 1438	40	P
GRAND	#12	2-18-62	F2290FN-1780FW	24,32N-18W	1573	1521-28	8	"	4½" @ 1572	40	P
<u>NAVAJO TRIBAL C</u>											
GRAND	#1	2-26-62	L660FN-2310FS	24,32N-18W	1295	1225-36	92	"	4½" @ 1288	80	P
GRAND	#2	3-10-62	H1650FN-330FE	23,32N-18W	1478	1407-17	89	"	4½" @ 1476	80	P
GRAND	#3	3-17-62	O330FS-2310FE	14,32N-18W	1380	1312-20	36	"	4½" @ 1373	80	P
GRAND	#4	10-3-61	J1650FS-1710FE	14,32N-18W	1365	1315-23	6	"	4½" @ 1357	35	P
GRAND	#5	3-23-68	L2310FS-330FW	14,32N-18W	1762	1642-65	84	"	4½" @ 1749	35	P
GRAND	#6	3-12-69	N1720FW-650FS	14,32N-18W	1310	1252-69	77	"	4½" @ 1310	35	P
EXPL/DRILL/CO	#7	4-7-69	H990FS-990FW	14,32N-18W	1327	-	-	"	7" @ 30	circ.	P&A

WELL IN AREA OF REVIEW

OPERATOR	WELL NAME	SPUD DATE	LOCATION	SECTION	TOTAL DEPTH	COMPLETION INTERVAL	I.P. (BOPD)	FORMATION	CASING SIZE & DEPTH	CEMENT SXS	STATUS
AZTEC OIL & GAS	NAV #3	11-14-59	4745FW-790FS	25,32N-18W	1660			GALLUP	8 5/8@60	35	P&A
DUGAN	HORSESHOE #2E	6-17-64	330FW-3210FS	30,32N-17W	1175	1101-10	10	GALLUP	4 1/2"@1172	35	P
ARI-MEX	NAV B #2	10-15-70	4950FW-2310FS	15,32N-18W	1718	1612-14	10	"	4 1/2"@1717	125	P
ARI-MEX	NAV #6	5-16-68	4950FW-3030FS	15,32N-18W	1360	1282-1304		"	4 1/2"@1345	35	P
ARI-MEX	NAV C #1	5-2-64	4595FW-3580FS	15,32N-18W	1276	1223-38	32	"	4 1/2"@1276	50	P
ARI-MEX	NAV #3A	5-30-64	4530FW-4335FS	15,32N-18W	1312	1250-60	19	"	4 1/2"@1312	35	P
AAA FSHING TL	NAV #4	1-24-68	3850FW-2510FS	15,32N-18W	1414	-		"	7"@50	circ.	P&A
AAA FSHING TL	NAV B #1	12-18-70	1650FW-1650FE	15,32N-18W	1285	-		"	7"@60	25	P&A
ARI-MEX	NAV B #3	3-19-70	1115FW-1480FE	15,32N-18W	1275	1197-1205	6	"	4 1/2"@1272	125	P
AAA FSHING TL	NAV #7	2-24-69	2310FW-4950FS	15,32N-18W	1295	-		"	7"@30	circ.	P&A
ARI-MEX	NAV #5	10-4-67	3300FW-440FS	10,32N-17W	1873	1664-78	6	"	4 1/2"@1764	135	P
HARLAN DRLG	NAV #2	5-4-64	350FW-540FS	10,32N-17W	1183	-		"	7"@30	circ.	P&A

GRAND RESOURCES, INC. WATERFLOOD PERMIT

- VII. 1. Average daily injection rate 300 BWPD per injection well. For 4 injection wells total average injection rate is 1200 BWPD. With a 11-year life total injection volume should be approximately 4.8 MMBW. Maximum injection rate should not exceed 500 BWPD per well.
2. System will be a closed system.
3. Maximum injection pressure will be 1000 psi. The average to be determined by a step-rate test after start-up.
4. An adequate source of water should be derived from the Morrison Water Sand at approximately 3000 feet. This water source is widely used in the area.

VIII. The Gallup formation is a reasonably clean sand stone with calcareous cementation present. The reservoir produces a solution gas drive with no apparent water leg. Average pay thickness 11.2 feet. Porosity is 13.1%. Average permeability is in the 70 md range. Connate water saturation of 31%. The Gallup sand is encountered between 1000 to 1400 from the surface depending on the topography of the location.

IX. Since all wells have been frac stimulated, there is no proposed restimulation program in the future.

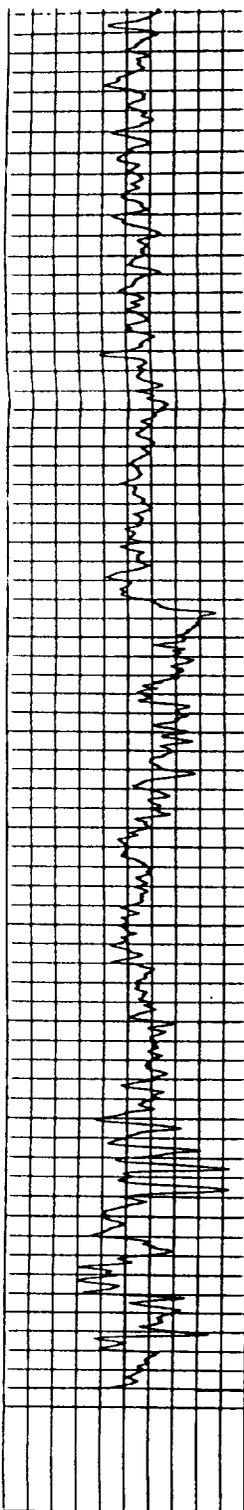
Attached please find a representative log for well # 1C NAV;
Section, 24-32N-18W.

NAME: _____

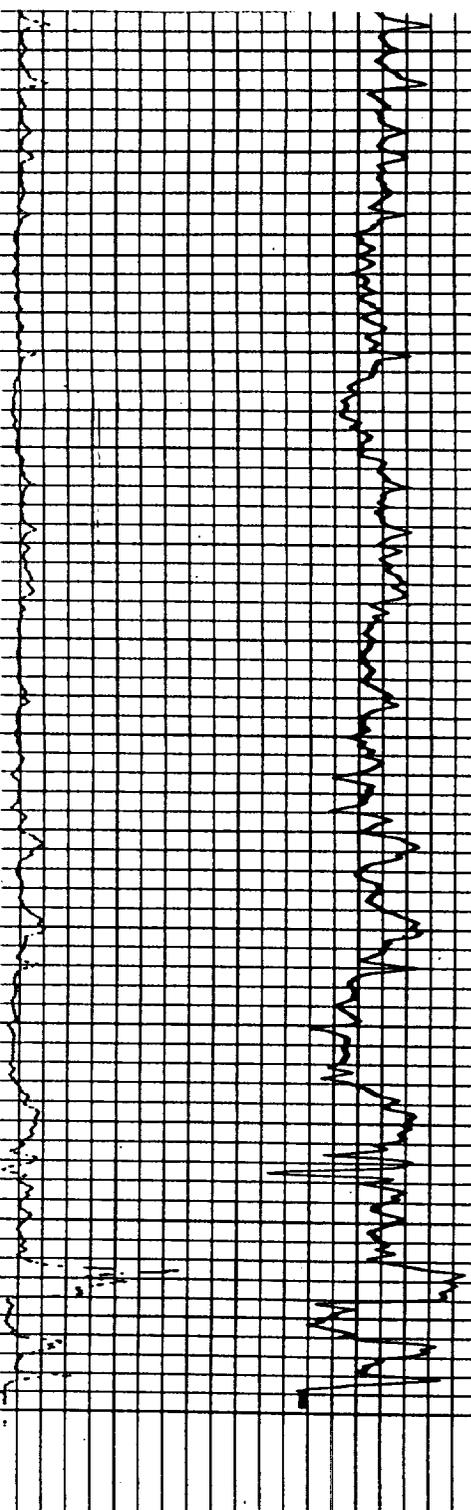
TITLE: _____

SIGNATURE: _____

DATE: _____



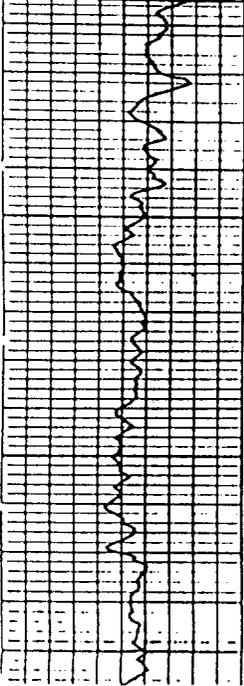
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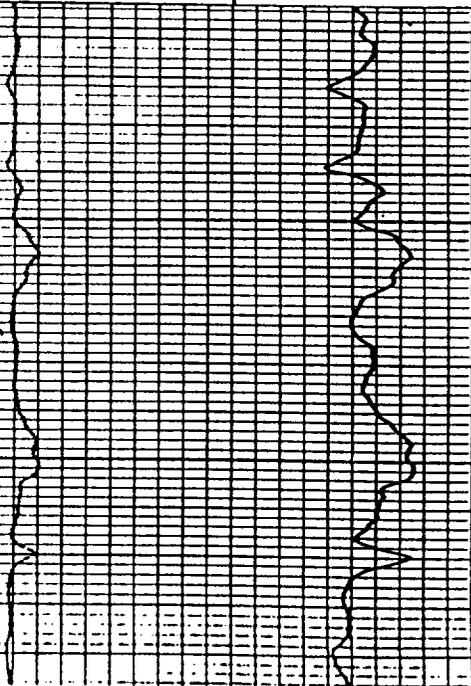
DETAIL LOG
5" = 100'

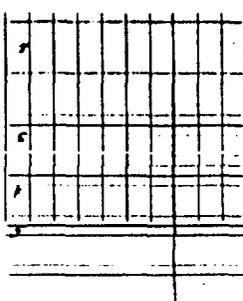
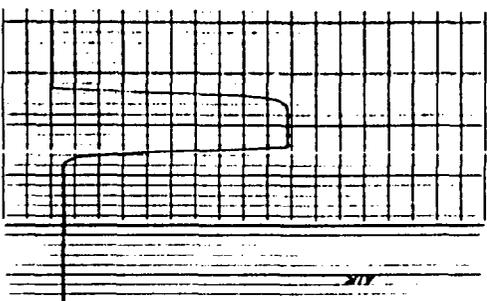
GAMMA RAY API UNITS	DEPTHS
24	144

CONDUCTIVITY millimhos/m - $\frac{1000}{\text{ohms. m}^2/\text{m}}$
INDUCTION 400 200 0
RESISTIVITY -ohms. m ² /m
0 100 0 1000



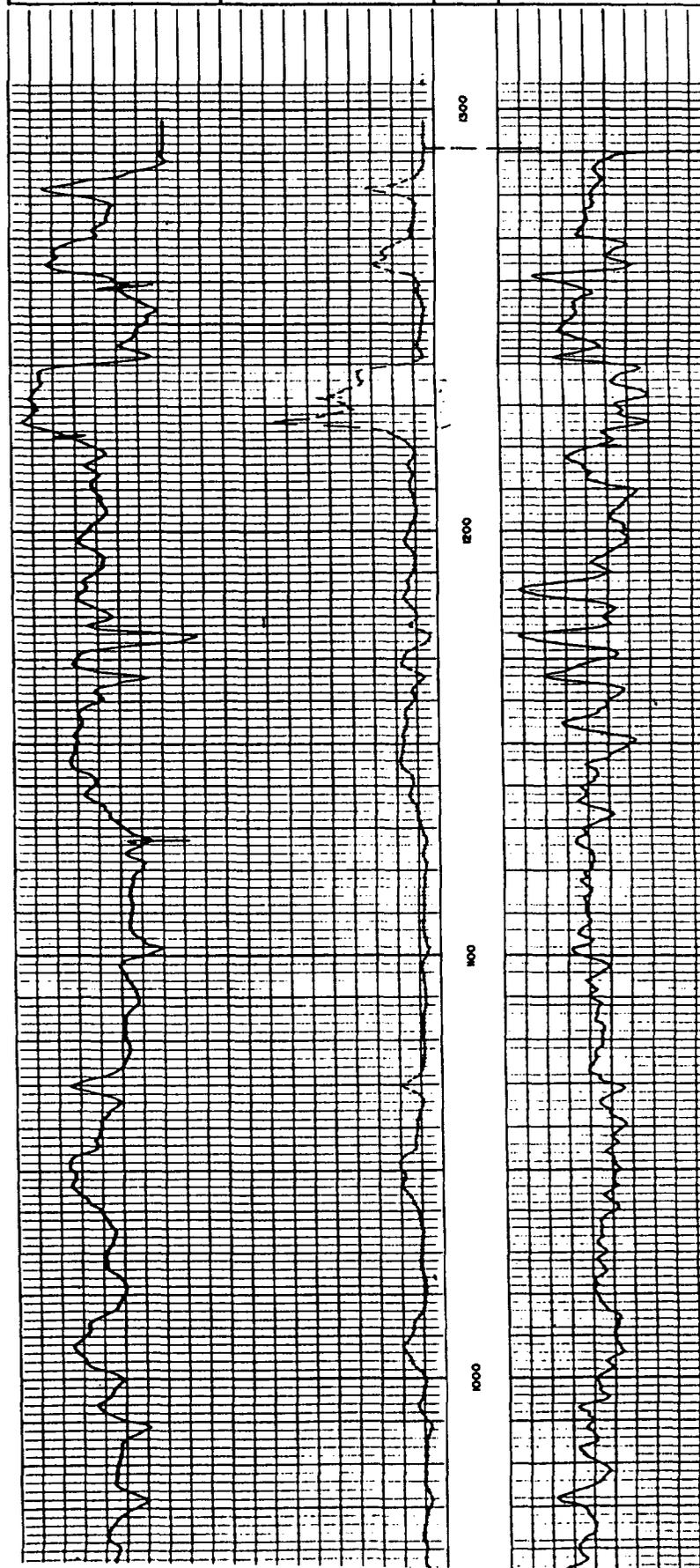
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COMPANY: TEXAS PACIFIC COAL & OIL COMPANY
 WELL: KAYADO TRIBAL C #1
 FIELD: UNDESIGNATED CALLUP
 COUNTY: SAN JUAN STATE, NEW MEXICO
 SWSC # 1291
 DATE TO 1295
 Elev: KB
 DF 5436
 GI 5437

CONDUCTIVITY millimhos/m - $\frac{1000}{\text{m}}$	SHALTS	GAMA RAY	API UNITS
		INDUCTION	161
RESISTIVITY -ohms.m/m		100	100

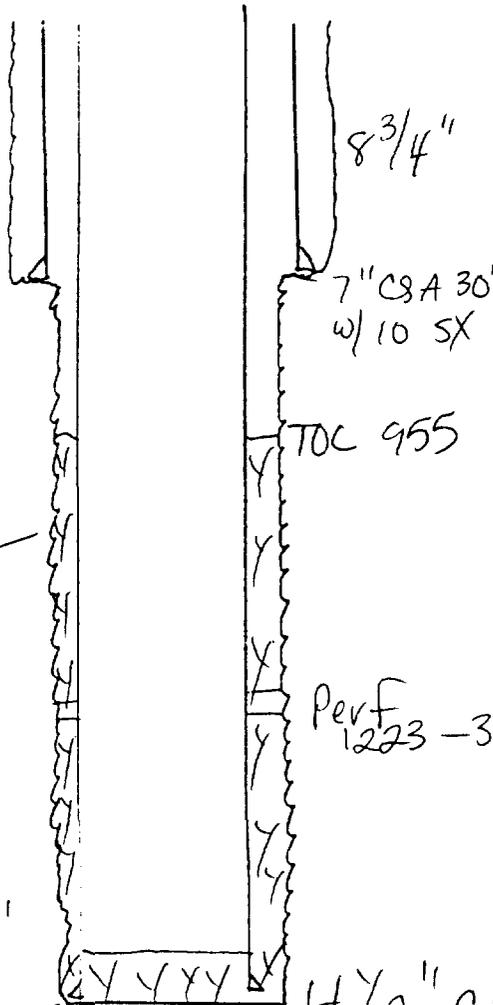


INJECTION WELL DATA SHEET

ARI-MEX OPERATOR
 NAVAJO "C" LEASE
 5-2-64 SPUD DATE
 #1 WELL NO. 4595FW-3580FS FOOTAGE LOCATION 15 SECTION 32N TOWNSHIP 18W RANGE

Schematic

Tabular Data



Surface Casing
 Size 7 " Cemented with 10 sx.
 TOC circ. feet determined by returns
 Hole size 8 3/4
Intermediate Casing
 Size NONE " Cemented with sx.
 TOC feet determined by
 Hole size
Long String
 Size 4 1/2 " Cemented with 50 sx.
 TOC 955 feet determined by calculation
 Hole size 6 1/2
 Total depth 1276
 Injection interval
1223 feet to 1238 feet
 (perforated, indicate which)

DBTD 3250'
 TD 1276'

4 1/2" C8A 1276 w/ 50 SX

1.1 ft thick

Tubing size 2 3/8 lined with sealtight plastic set in
 Halliburton Model R (Material) 1100 feet
 (Brand and model) packer at

(or describe any other casing-tubing seal).

Other Data

- Name of the injection formation GALLUP
- Name of field or pool (if applicable) MESA GALLUP
- Is this a new well drilled for injection? Yes No
 If no, for what purpose was the well originally drilled? production
- Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail (sacks of cement or bridge plug(s) used) NO
- Give the depth to and name of any overlying and/or underlying oil or gas zones (pools) in this area. NONE

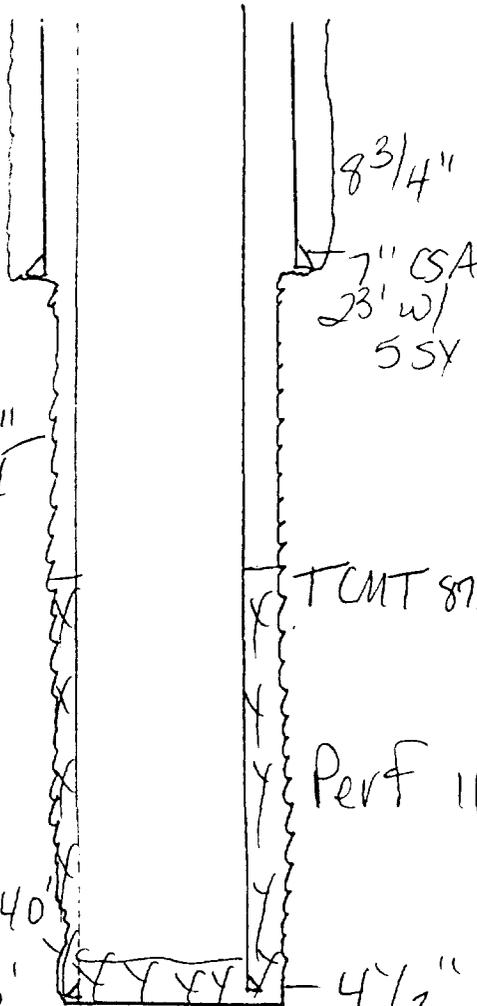
INJECTION WELL DATA SHEET

8-10-61

GRAND RESOURCES, INC. OPERATOR
 #3 WELL NO.
 660FS-1980FN FOOTAGE LOCATION
 24 SECTION
 NAVAJO LEASE
 32N TOWNSHIP
 18W RANGE
 SPUD DATE

Schematic

Tabular Data



Surface Casing

Size 7 " Cemented with 5 sx.
 TOC circ. feet determined by returns
 Hole size 8 3/4

Intermediate Casing

Size NONE " Cemented with _____ sx.
 TOC _____ feet determined by _____
 Hole size _____

Long String

Size 4 1/2 " Cemented with 45 sx.
 TOC 872 feet determined by calculations
 Hole size 6 1/2
 Total depth 1163

Injection interval

1110 feet to 1126 feet
 (perforated, indicate which)

TCMT 872'

Perf 1110-26 w/45 PF

PBTD 1140'
 TD 1163'

4 1/2" CSA 1158' w/45 SX

Tubing size 2 3/8 lined with sealtight plastic set in a
Halliburton Model R (Material) 1000 feet
 (Brand and model) packer at _____ feet

(or describe any other casing-tubing seal).

Other Data

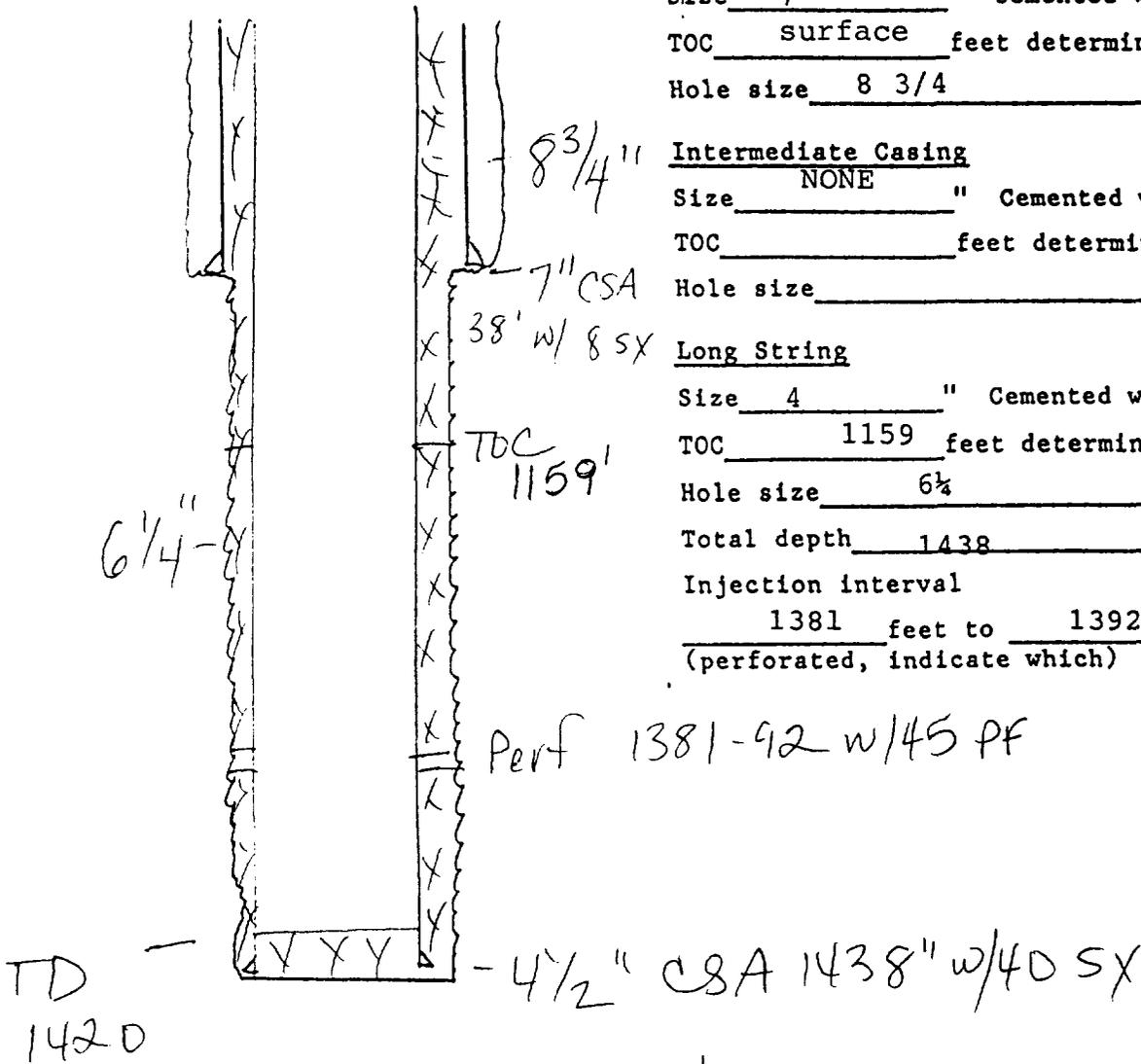
- Name of the injection formation GALLUP
- Name of field or pool (if applicable) MESA GALLUP
- Is this a new well drilled for injection? Yes No
 If no, for what purpose was the well originally drilled? production
- Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail (sacks of cement or bridge plug(s) used) no
- Give the depth to and name of any overlying and/or underlying oil or gas zones (pools) in this area. NONE

INJECTION WELL DATA SHEET

GRAND RESOURCES, INC.	NAVAJO	1-24-62		
OPERATOR	LEASE	SPUD DATE		
#11	330FN-1650FE	23	32N	18W
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE

Schematic

Tabular Data



Surface Casing
 Size 7 " Cemented with 8 sx.
 TOC surface feet determined by returns
 Hole size 8 3/4

Intermediate Casing
 Size NONE " Cemented with _____ sx.
 TOC _____ feet determined by _____
 Hole size _____

Long String
 Size 4 " Cemented with 40 sx.
 TOC 1159 feet determined by calculated
 Hole size 6 1/4
 Total depth 1438
 Injection interval
1381 feet to 1392 feet
 (perforated, indicate which)

Tubing size 2 3/8 lined with sealtight plastic set in a
Halliburton Model R (Material) packer at 1200 feet
 (Brand and model)

(or describe any other casing-tubing seal).

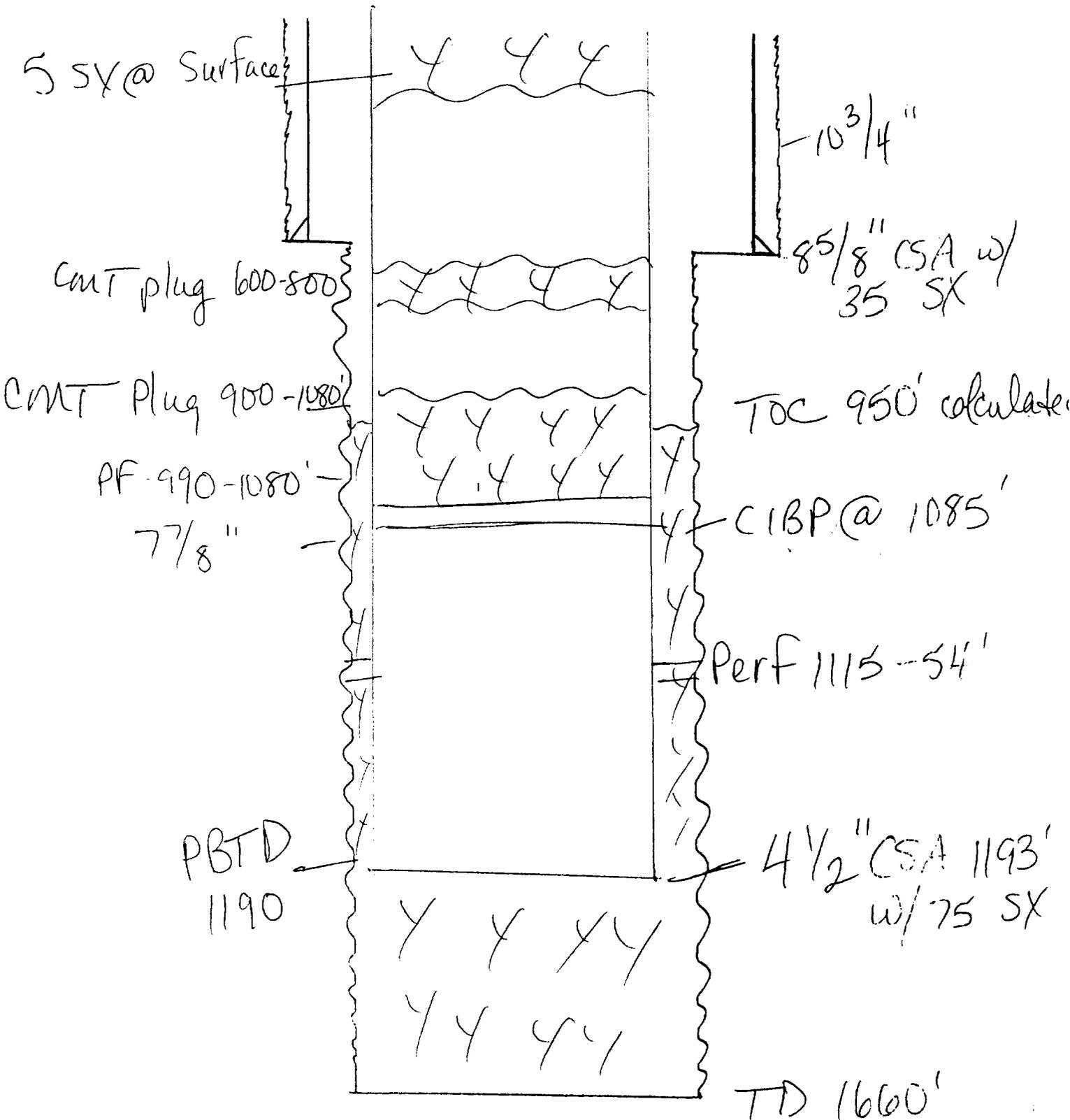
Other Data

- Name of the injection formation GALLUP
- Name of field or pool (if applicable) MESA GALLUP
- Is this a new well drilled for injection? Yes No
 If no, for what purpose was the well originally drilled? PRODUCTION
- Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail (sacks of cement or bridge plug(s) used) NO
- Give the depth to and name of any overlying and/or underlying oil or gas zones (pools) in this area. NONE

WELL DATA SHEET

AZTEC OIL & GAS CO.	NAVAJO	11-14-59
OPERATOR	LEASE	SPUD DATE
#3	790FS-535FE	25
		32N
		18W

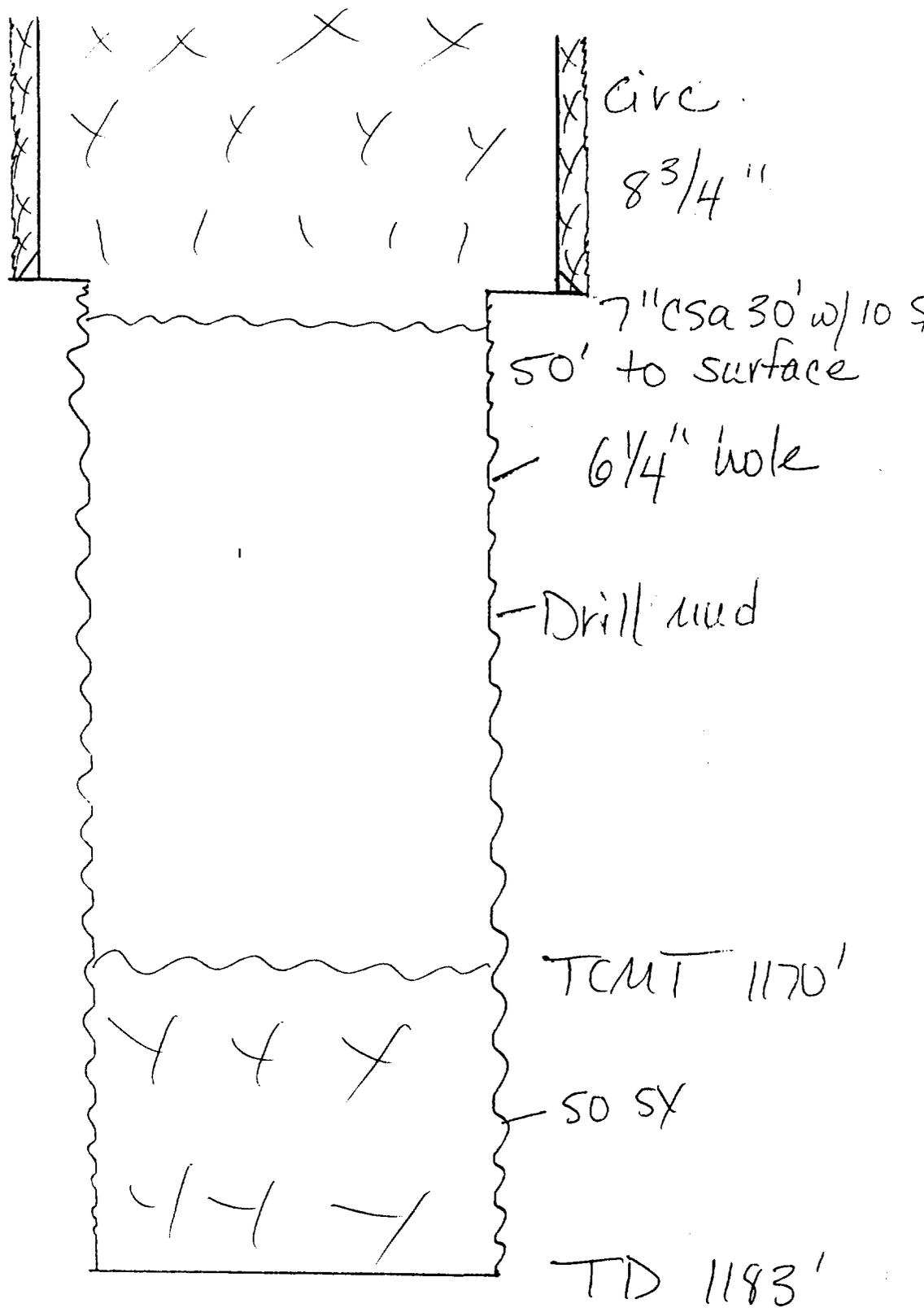
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
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WELL DATA SHEET

HARLAN DRILLING CO.	NAVAJO	5-4-64
OPERATOR	LEASE	SPUD DATE
#2	350FW-540FS	10
		32N
		17W

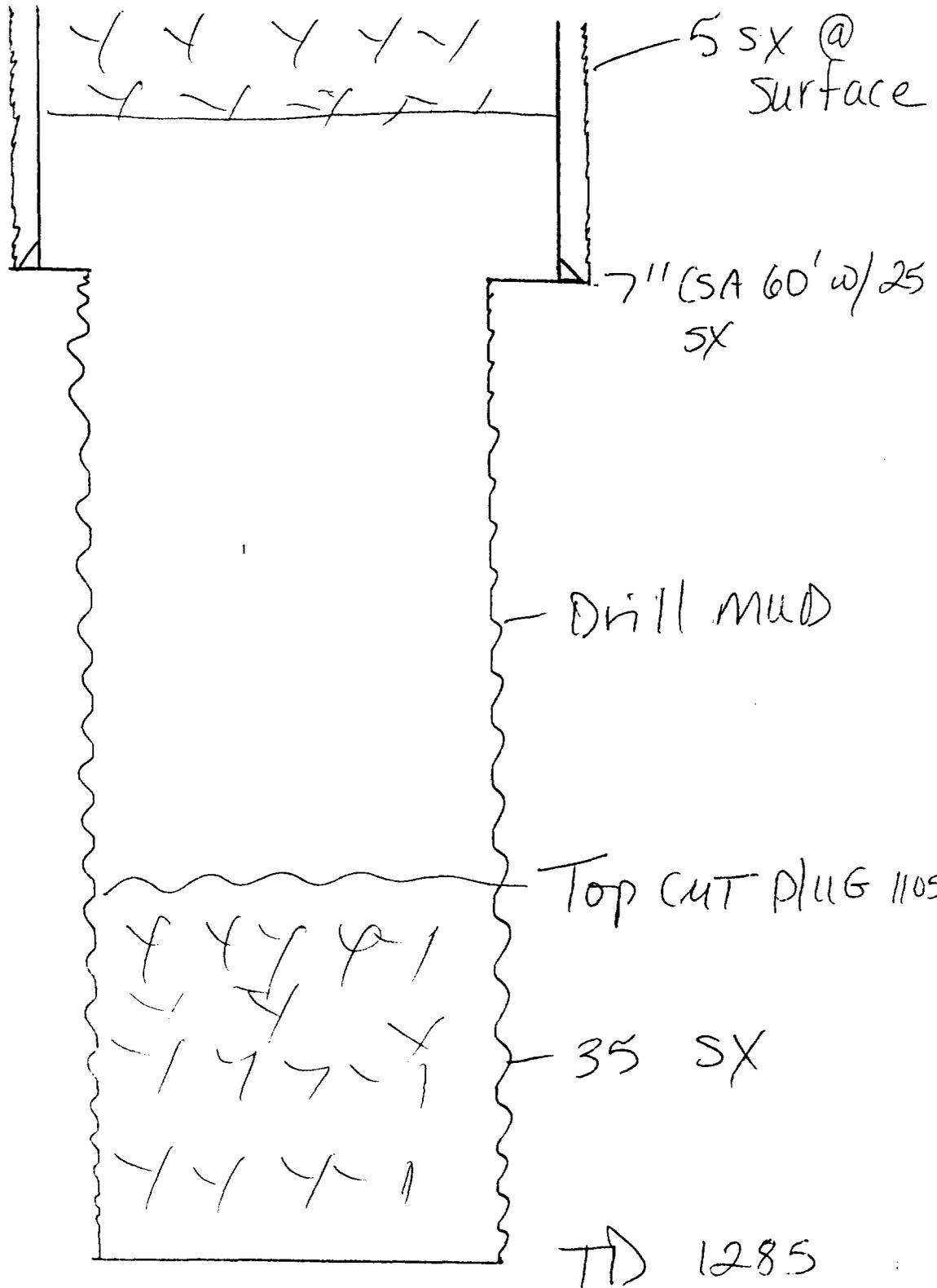
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
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WELL DATA SHEET

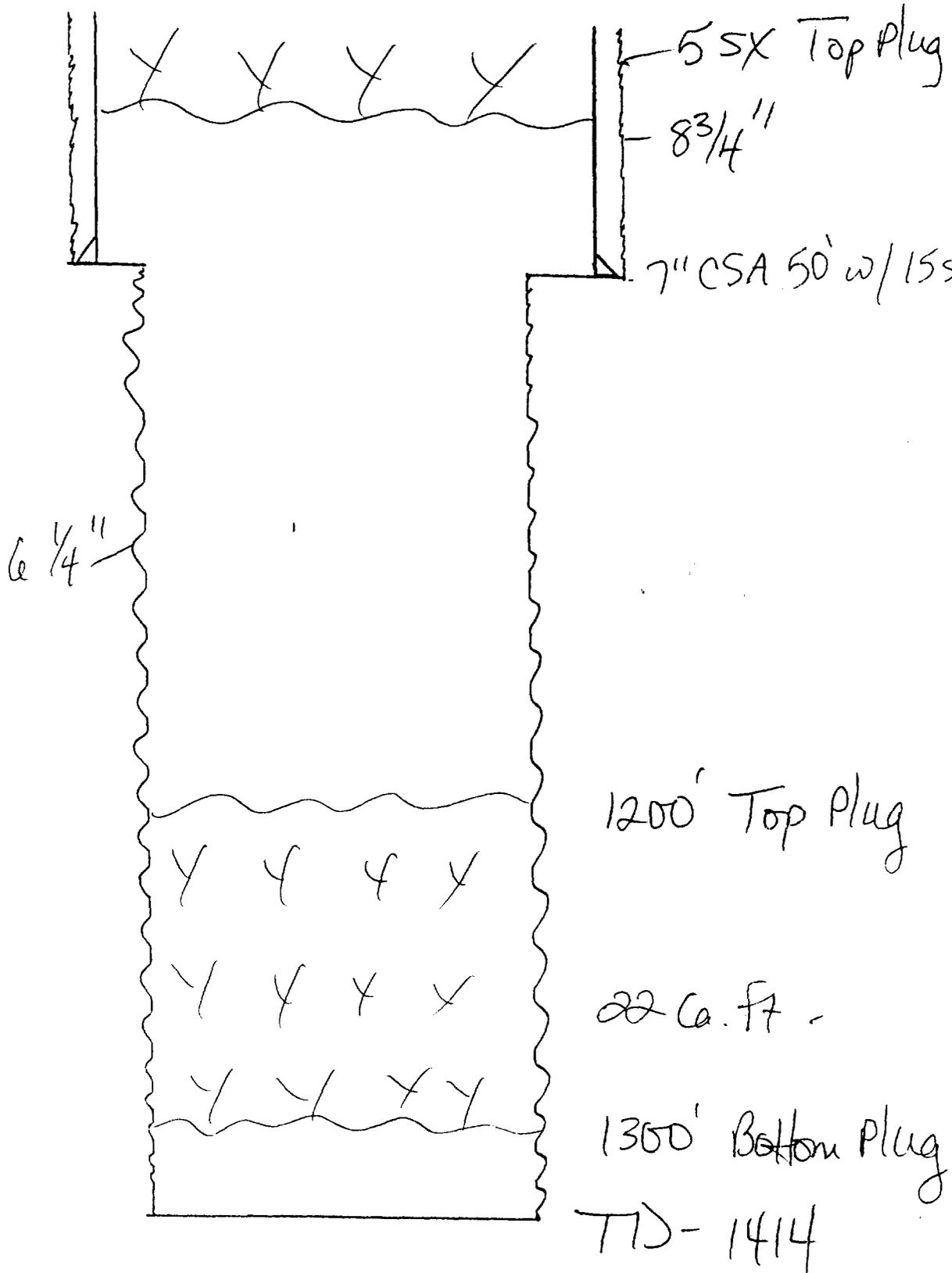
AAA	FISHING TOOL	NAVAJO	12-3-70	
OPERATOR		LEASE	SPUD DATE	
B-1	1650FN-1650FE	15	32N	18W

WELL NO. FOOTAGE LOCATION SECTION TOWNSHIP RANGE



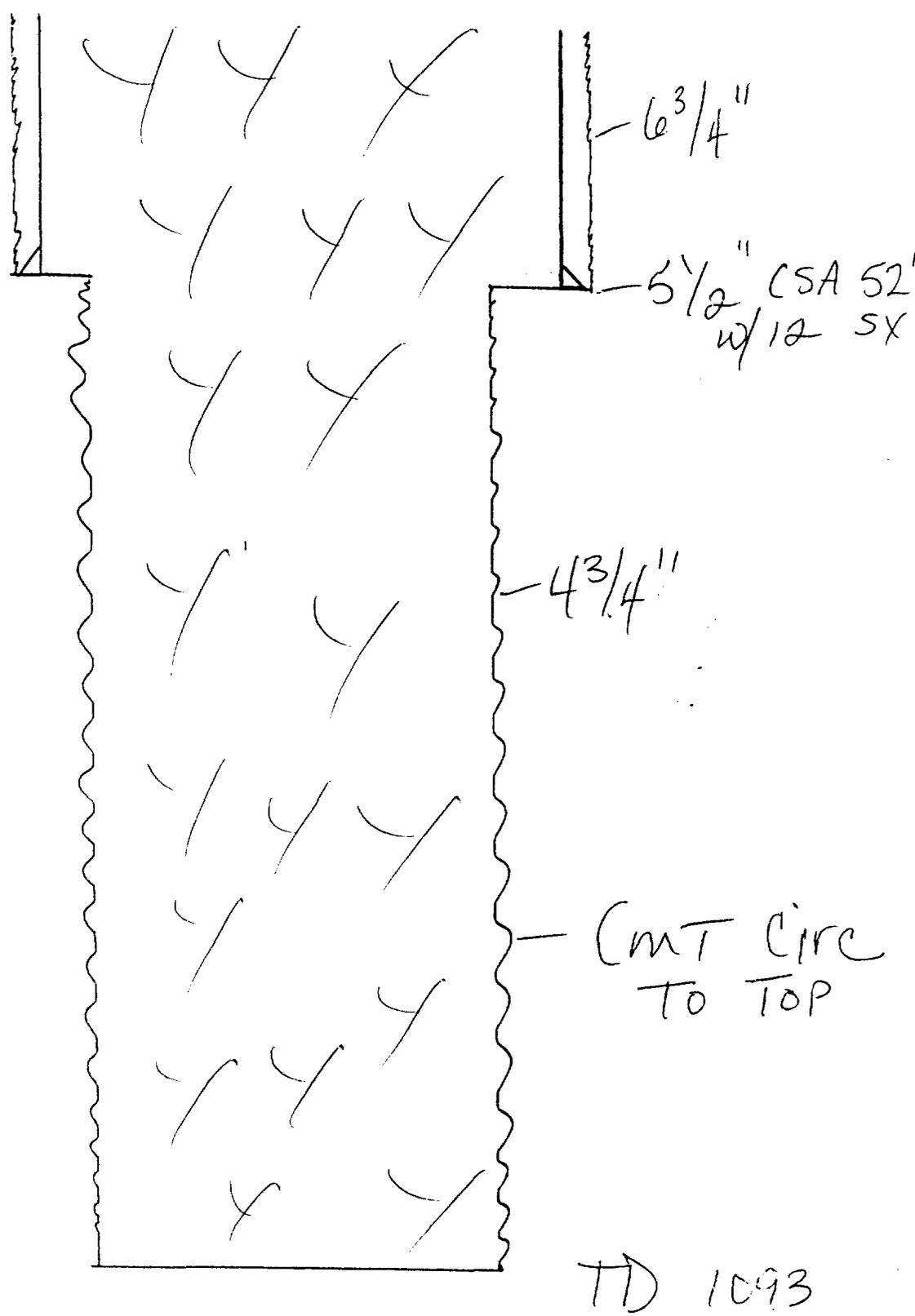
WELL DATA SHEET

AAA FISHING TOOL	NAVAJO	1-24-68		
OPERATOR	LEASE	SPUD DATE		
#4	3850FW-2510FS	15	32N	18W
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE



WELL DATA SHEET

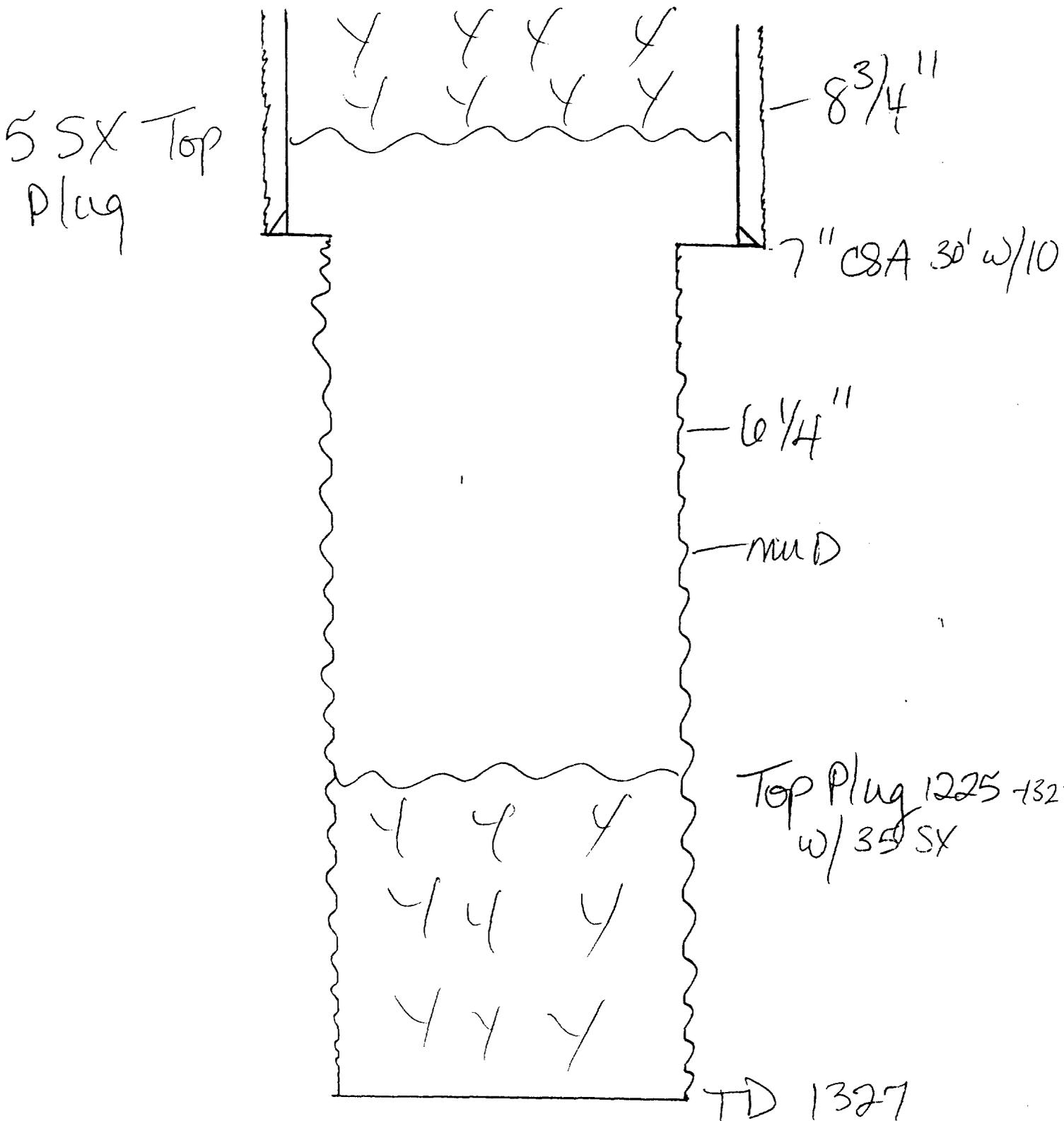
OPERATOR	LEASE	SPUD DATE		
R. L. BAYLESS	NAVAJO	7-1-64		
#6	1980FN-1980FE	25	32N	18W
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE



WELL DATA SHEET

EXPLORATION DRILLING CO.	NAVAJO	4-7-69
OPERATOR	LEASE	SPUD DATE
#7	990FS-990Fw	14
		32N
		18W

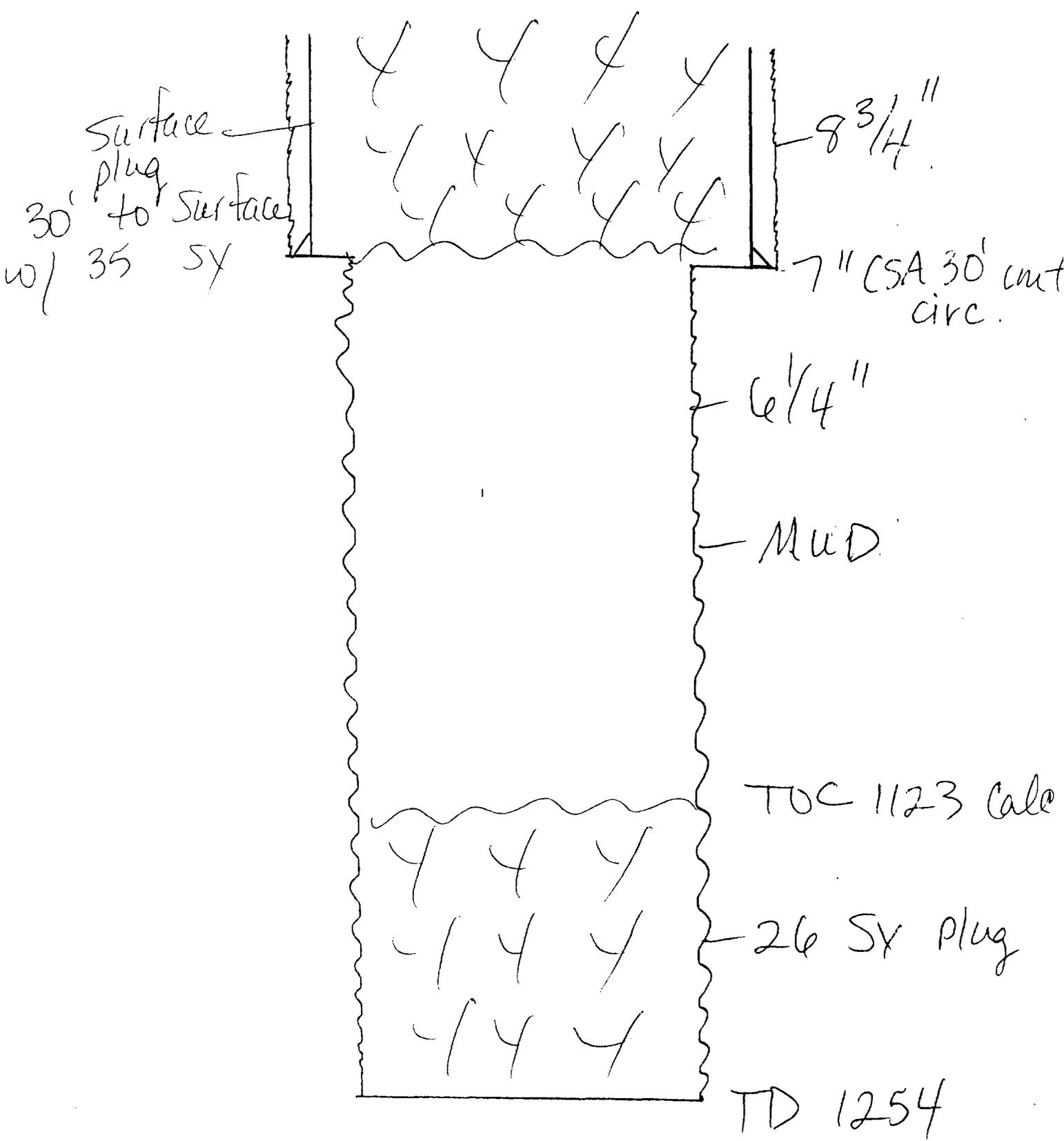
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
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WELL DATA SHEET

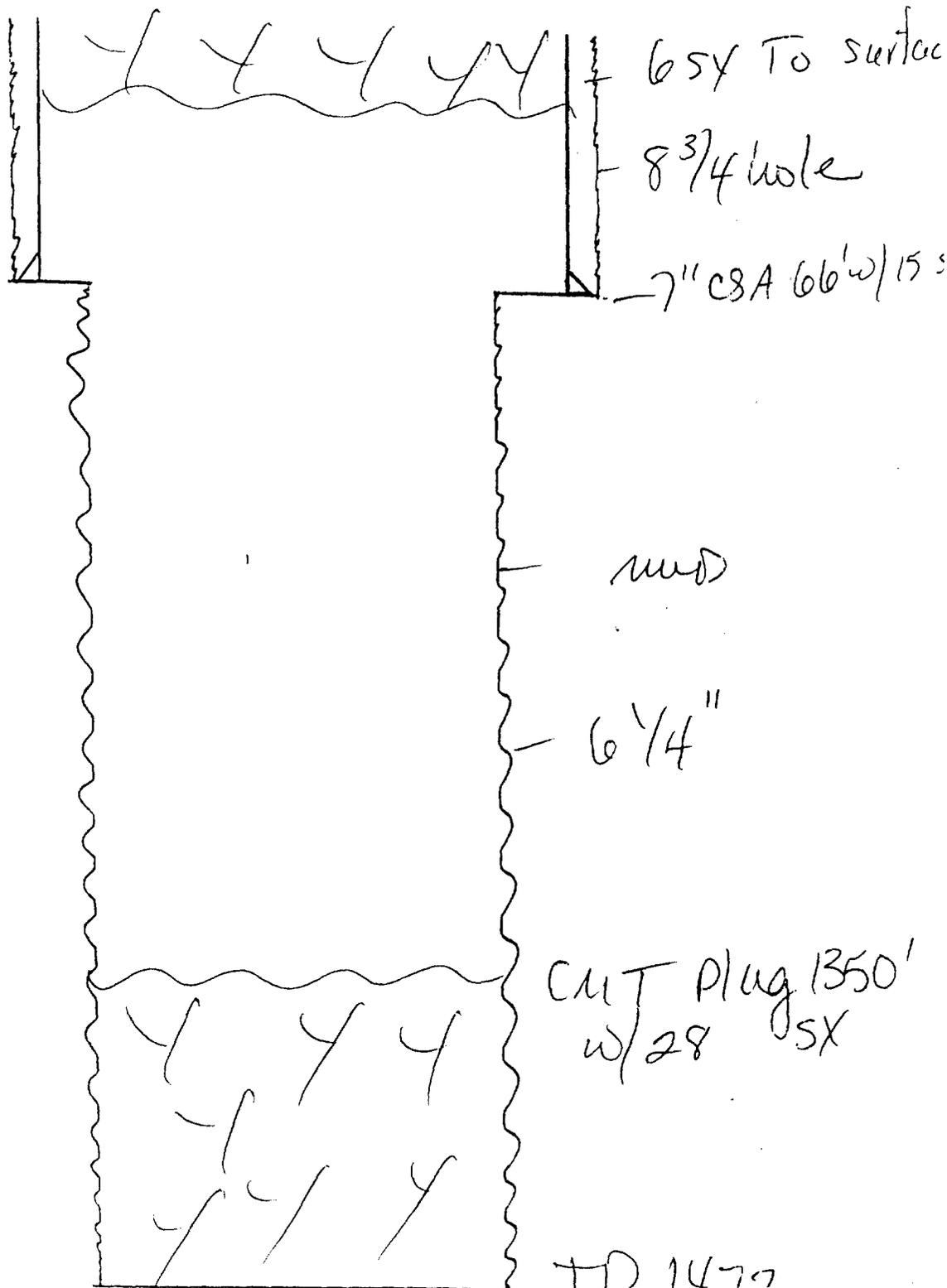
EXPLORATION DRILLING CO.	NAVAJO	11-29-61
OPERATOR	LEASE	SPUD DATE
#5	2135FS-1935FE	23
		32N 18W

WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
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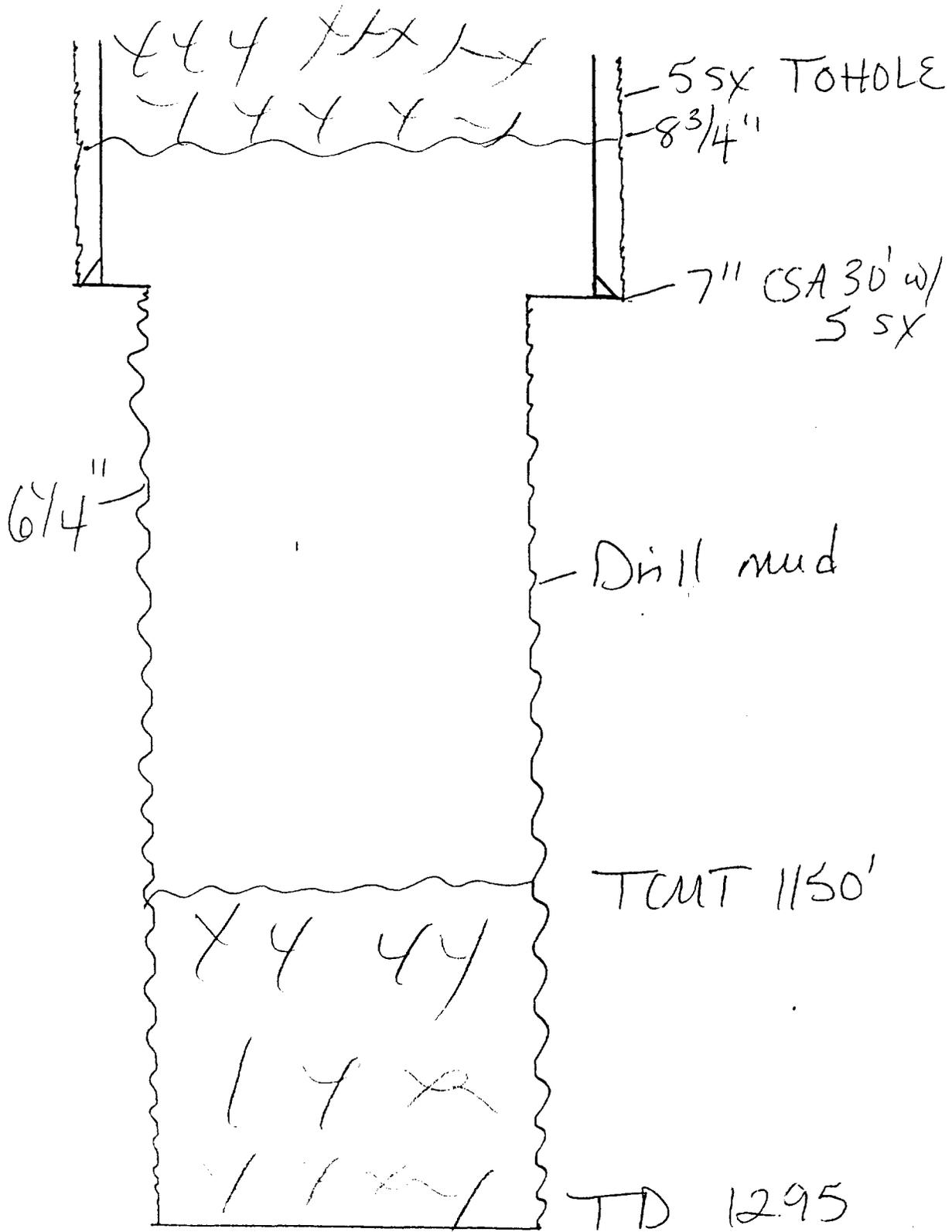
WELL DATA SHEET

OPERATOR	LEASE	SPUD DATE		
EXPLORATION DRILLING CO.	NAVAJO	12-30-61		
#6	365FS-760FW	13	32N	18W
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE



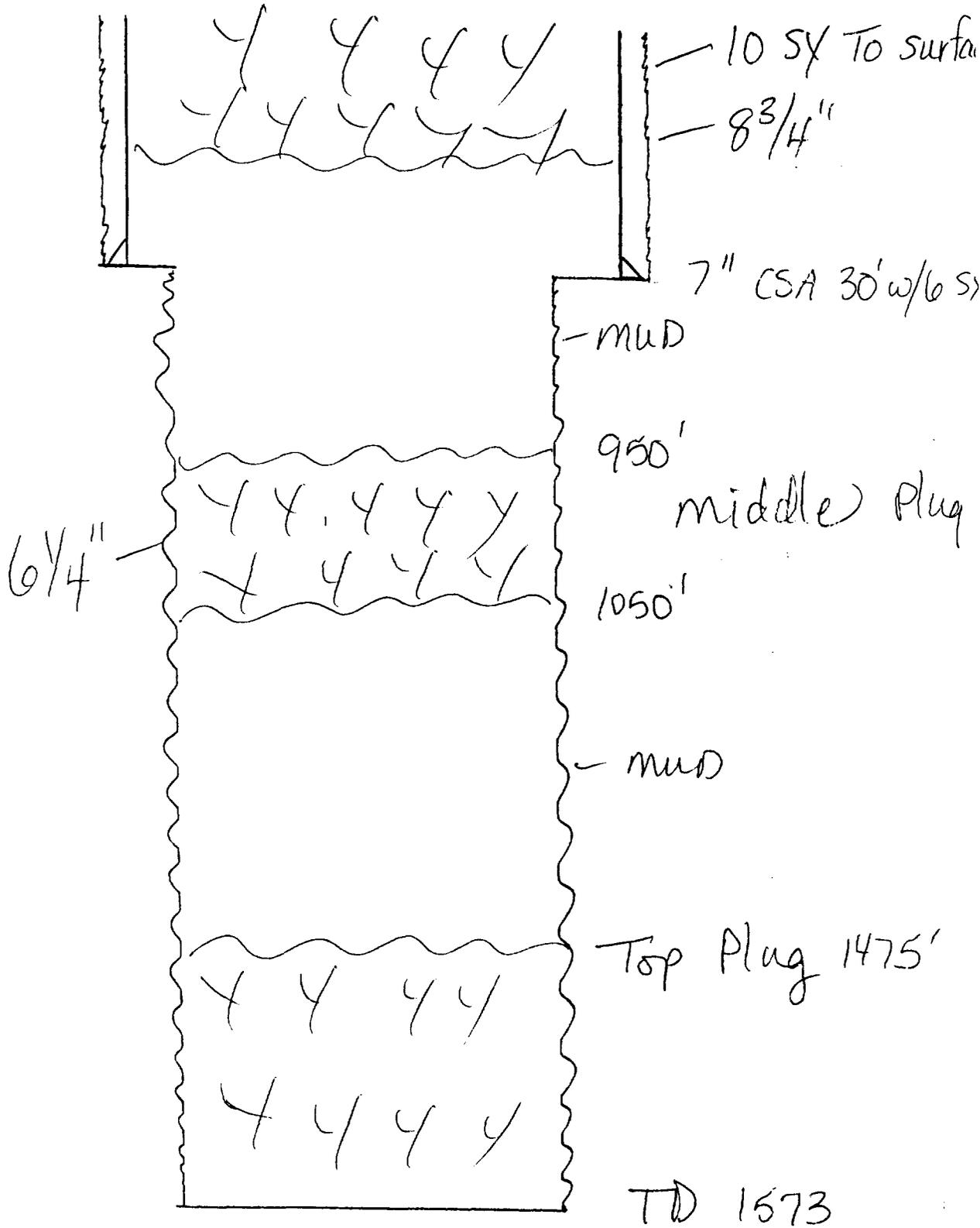
WELL DATA SHEET

OPERATOR	LEASE	SPUD DATE		
AAA FISHING TOOL	NAVAJO	2-24-69		
#7	2310FW-4950FS	15		
WELL NO.	FOOTAGE LOCATION	SECTION	TOWNSHIP	RANGE
			32N	18W



WELL DATA SHEET

ZOLLER & DANNEBERG	BLUEHILL	7-26-65
OPERATOR	LEASE	SPUD DATE
#1	2319FN-1980FE	25
		32N
		18W
WELL NO.	FOOTAGE LOCATION	SECTION
		TOWNSHIP
		RANGE



UNIT AGREEMENT
MESA GALLUP UNIT
SAN JUAN COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)
Exhibit "B" (Schedule of Ownership and Tract Participation)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA GALLUP UNIT
SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of JUNE, 1989, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

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

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

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

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

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

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

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

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

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

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

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

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 2,680 acres, more or less, in San Juan County, New Mexico.

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

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

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

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

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

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

(h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as +

(h) Unitized formation shall mean that interval containing the Mesa Gallup sand underlying the unit area, the vertical limits of which extend from an upper limit described as + 4500 feet above mean sea level to a lower limit of + 4000 feet above mean sea level. The Mesa Gallup sand was recorded on the Schlumberger Combination Induction-Gamma Ray Log taken on the Navajo Tribal "C" #1 well located 660FW-2310FS, Section 24-32N-18W, San Juan County, New Mexico on March 4, 1962, as being the interval from 1220 to 1240 feet on the log. With a Derrick Floor (DF) elevation of 5436, the Gallup formation on the subject logs exists between +4216 to +4196.

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

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

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

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

(m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an Oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.

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

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

the right to search for and produce unitized substances.

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

(q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, MESA GALLUP UNIT AREA, SAN JUAN County, New Mexico".

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

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

(t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualifications of a successor Unit Operator as provided for in Section 7 hereof.

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

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

(w) "Unit Equipment" is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(x) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

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

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area, and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than

mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 A.M., on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

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

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owner's meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

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

(2) Deliver copies of said notice to Land Commissioner, the A.O. at the Proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interest are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14,

and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

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

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

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

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

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

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

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

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

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

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

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise

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

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

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

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

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

Unit Operator's free use of water or brine or both for Unit Operations, shall

not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

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

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

$$\text{Tract Participation} = 60\% \text{ C/D} + 30\% \text{ E/F} + 10\% \text{ A/B}$$

A= Tract floodable volume. Determined by planimetering (Isopach Map) floodable reservoir volume beneath each unit tract.

B= Total unit floodable volume. Determined by planimetering (Isopach Map) floodable reservoir volume beneath the unit area.

C= Tract cumulative production to December 31, 1988.

D= Total Unit cumulative production to December 31, 1988.

E= Tract current # of wells.

F= Total unit # of wells.

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

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

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

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

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

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final

approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O. shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

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

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

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

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

SECTION 15.B. WINDFALL PROFIT TAX. In order to comply with the Windfall Profit Tax Act of 1980, as amended, and applicable regulations and to ensure that interest owners of each Tract retain the Windfall Profit Tax benefits accruing to each Tract prior to joining the Unit, for Windfall Profit Tax purposes only, crude oil shall be allocated to individual Tracts as follows:

SECTION 15.C. IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract contributing newly discovered crude oil to the Unit Area, that is, each Tract certified as a newly discovered property for Windfall Profit Tax purposes prior to joining the

Unit (Newly Discovered Tract), shall be allocated imputed newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Newly Discovered Tracts; provided, however, that imputed newly discovered crude oil allocated to any Tract under this Subsection 15.C. shall not exceed in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Newly Discovered Tract is so allocated a number of barrels of imputed newly discovered crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation, then such Newly Discovered Tract shall be allocated any remaining unallocated newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of Tract Participations of all Newly Discovered Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) all Newly Discovered Tracts have been so allocated a number of barrels of imputed newly discovered crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed newly discovered crude oil remaining to be allocated, whichever occurs first.

Any imputed newly discovered crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.C. shall be termed: excess imputed newly discovered crude oil.

SECTION 15.D. IMPUTED STRIPPER CRUDE OIL. Each Tract contributing stripper crude oil to the Unit Area, that is, each Tract certified as a stripper property for Windfall Profit Tax purposes prior to joining the Unit (Stripper Tract), shall be allocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts; provided, however, that imputed stripper crude oil allocated to any Tract under this Subsection 15.D. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Stripper Tract is so allocated a number of barrels of imputed stripper crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation, then such Stripper Tract shall be allocated any remaining unallocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) all Stripper Tracts have been so allocated a number of barrels of imputed stripper crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed stripper crude oil remaining to be allocated,

whichever comes first.

Any imputed stripper crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.D. shall be termed excess imputed stripper crude oil.

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

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

SECTION 15.G. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation, then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

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

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

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

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

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average

production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

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

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

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

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

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

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

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this

Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

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

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

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

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

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

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

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

Without limiting the generality of the foregoing, all leases, subleases and

contracts are particularly modified in accordance with the following:

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

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

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

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

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

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

(f) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-

-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

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

If this Agreement does not become effective on or before JUNE 1, 1990, it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

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

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

This Agreement may be terminated with the approval of the Land Commissioner

and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico, within thirty (30) days of the effective date of termination.

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

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

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

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

SECTION 26. NONDISCRIMINATION. Unit Operator in connection with the performance of work under this Agreement relating to leases of the United States, agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

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

or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

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

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

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

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

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the

applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

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

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

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

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an associ-

ation or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

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

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

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

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

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

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

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

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to

conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of SAN JUAN County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

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

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

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

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

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

Executed as of the day and year first above written.

Attest:

GRAND RESOURCES, INC.

by _____
President

SECRETARY

2250 E. 73rd St, Ste 400
Tulsa, OK 74136

State of OKLAHOMA

:ss.

County of TULSA)

The foregoing instrument was acknowledged before me this _____ day of _____, 1989 by MARVIN ROBINOWITZ who is PRESIDENT GRAND RESOURCES, INC., an OKLAHOMA corporation on behalf of said corporation.

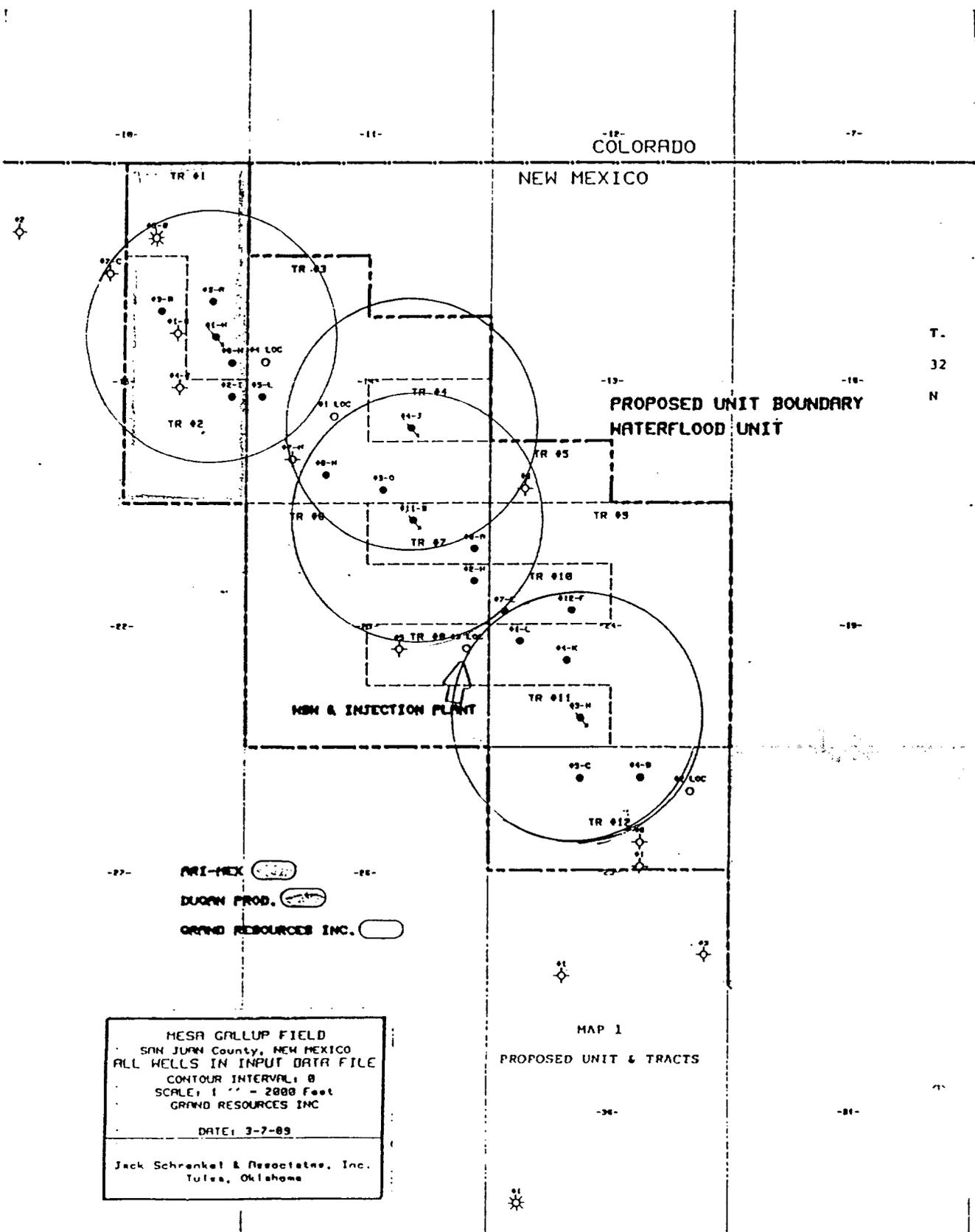
My Commission Expires: _____

Notary Public

EXHIBIT "A"

R. 18 W

R. 17 W



NEW MEXICO

PROPOSED UNIT BOUNDARY
WATERFLOOD UNIT

HBM & INJECTION PLANT

- PRI-MEX (Symbol)
- DUQAN PROD. (Symbol)
- GRAND RESOURCES INC. (Symbol)

MESA GALLUP FIELD
SAN JUAN County, NEW MEXICO
ALL WELLS IN INPUT DATA FILE
CONTOUR INTERVAL: 8
SCALE: 1" = 2000 Feet
GRAND RESOURCES INC
DATE: 3-7-89

Jack Schrenkel & Associates, Inc.
Tulsa, Oklahoma

MAP 1
PROPOSED UNIT & TRACTS

T.
32
N

EXHIBIT "g"
 SCHEDULE OF LANDS AND LEASES
 MESA GALLUP RECOVERY UNIT
 SAN JUAN COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	ACRES	LEASE NO.	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	NAME	WORKING INTEREST (OPERATING RIGHTS)	
								COST (DECIMAL)	PRODUC (DECI)
1	S $\frac{1}{2}$ SE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$ 10, NE $\frac{1}{4}$ Sec 15-32N-18W	200	1420603-	12.5%	TEXAS PACIFIC OIL CO, INC.	-0-	ARI-MEX	1.0	.875
2	W/2 NE $\frac{1}{4}$, SE $\frac{1}{4}$ Sec 15-32N-18W	240	"	12.5%	TEXAS PACIFIC OIL CO., INC.	-0-	ARI-MEX	1.0	.875
3	W/2, S/2 NE $\frac{1}{4}$, S/2 SE $\frac{1}{4}$ Sec 14-32N-18W	480	142060- 3584	12.5%	TEXAS PACIFIC OIL CO. & MURPHY CORP.	-0-	21st Century Invsts. Jack Schrenkle & Ass. Grand Resources, Inc.	67.5 25.0 7.5	.590 .218 .065
4	N/2 SE $\frac{1}{4}$ Sec 14-32N-18W	80	"	"	"	-0-	"	"	"
5	S/2 SW $\frac{1}{4}$ Sec 13-32N-18W	80	"	"	"	-0-	"	"	"
6	W/2, S/2 NE $\frac{1}{4}$ S/2 SE $\frac{1}{4}$ /Sec 23,-32N-18W	480	"	"	"	-0-	"	"	"
7	N/2 NE $\frac{1}{4}$ Sec 23-32N-18W	80	"	"	"	-0-	"	"	"

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
MESA GALLUP RECOVERY UNIT
SAN JUAN COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	ACRES	LEASE NO.	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	NAME	WORKING INTEREST (OPERATING RIGHTS)	
								COST (DECIMAL)	PRODUCT (DECIMAL)
8	N/2 SE $\frac{1}{4}$ Sec 23-32N-18W	80	142060-3584	12.5%	TEXAS PACIFIC OIL CO. & MURPHY CORP.	-0-	21st Century Invsts. Jack Schrenkle & Ass. Grand Resources, Inc.	67.5 25.0 7.5	.590622 .21875 .065622
9	E/2, N $\frac{1}{2}$ NW $\frac{1}{4}$, N/2 SW $\frac{1}{4}$ Sec 24-32N-18W	480	"	"	"	"	"	1.00	.875
10	S/2 NW $\frac{1}{4}$ Sec 24-32N-18W	80	"	"	"	"	"	"	"
11	S/2 SW $\frac{1}{4}$ Sec 24-32N-18W	80	"	"	"	"	"	"	"
12	N/2, Sec 25-32N-18W	320	I149IND-7850	12.5%	The Texaco Co.	.0273436	21st Century Invsts. Jack Schrenkel & Ass. Grand Resources, Inc.	67.5 25.0 7.5	.57216 .21191 .06357
								1.00	.84765

UNIT OPERATING AGREEMENT
MESA GALLUP UNIT
SAN JUAN COUNTY, NEW MEXICO

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SUPERVISOR BENJAMIN CATANACH OPERATIONS DIVISION
GRAND EXHIBIT NO. <u>4</u>
CASE NO. <u>9637</u>

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2. Workmanlike Conduct	4
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UNIT OPERATING AGREEMENT
MESA GALLUP UNIT
SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of JUNE, 1989, by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, the parties hereto, as Working Interest Owners have executed that certain agreement entitled "Unit Agreement, Mesa Gallup Unit, San Juan County, New Mexico" hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners to provide for Unit Operations therein defined:

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

ARTICLE 1

Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2
EXHIBITS

The following exhibits are incorporated herein by reference or attachment:

1. Exhibits "A" and "B" of the Unit Agreement.
2. Exhibit "C", Parts I and II, attached hereto, is a summary showing each Working Interest Owner's Interest in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner.
3. Exhibit "D", attached hereto, contains insurance provisions applicable to Unit Operations.
4. Exhibit "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. In the event of conflict between this agreement and Exhibit "E", this agreement shall prevail.
5. Exhibit "F", attached hereto, contains Certificate of Compliance provisions provided for in Article 21.
6. Exhibit "G", attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.
7. Revision of Exhibits. Whenever Exhibit "A" or "B" are revised, Exhibit "C" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.
8. Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY
WORKING INTEREST OWNERS

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

2. Particular Powers - Duties. The Working Interest Owners, using the voting procedures given in Article 4.3, unless otherwise specifically provided in this Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:

a. Method of Operation. The kind, character and method of operation, including any type of pressure maintenance, secondary recovery or other enhanced recovery program to be employed.

b. Drilling of Wells. The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances; and the drilling of any well for injection, salt water disposal or for any other Unit purpose.

c. Well Workovers and Change of Status. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Article 3.2.d. hereinbelow; and the abandonment or change of status of any well in the Unit, or the use of any such well for injection or other purposes.

d. Expenditures. Making of any single expenditure in excess of Fifteen thousand (\$15,000.00) Dollars, except as provided in Article 7.9 hereof; provided that approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.

e. Amendment of Overhead Rates. The amendment of the overhead rates provided for in Section III of Exhibit "E" if, as set forth in Section III.3 of Exhibit "E", such rates are found to be insufficient or excessive.

f. Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus unit material or equipment, the current list price of new equipment similar thereto being Fifteen thousand (\$15,000.00) Dollars or more.

g. Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

h. Audit Exceptions. Any unresolved audit exceptions relating to audits as provided for in Exhibit "E".

i. Assignments to Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

j. The selection of a successor to the Unit Operator.

k. The enlargement of the Unit Area.

l. The adjustment and readjustment of investments.

m. Acquisition of Wells for Unit Operations.

n. The termination of the Unit Agreement.

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

1. Designation of Representatives. Each Working Interest Owner, other than individuals, shall advise Unit Operator in writing the names and addresses of its representative and alternate who are authorized to represent and bind it in respect to any matter pertaining to the development and

operation of the Unit area. Such representative or alternate may be changed from time to time by written notice to Unit Operator. Individual Working Interest Owners shall represent themselves, or may designate, in writing, an agent to so represent.

2. Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten (10%) percent. No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be Chairman of each meeting.

3. Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them, as follows:

a. Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote.

b. Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of four or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty percent (30%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

c. Vote at Meeting by Non-Attending Working Interest Owners. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

d. Poll Votes. Working Interest Owners may decide any matter by vote taken by letter or telegram, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called, as provided in Article 4.2, within fourteen (14) days after such proposal is dispatched to Working Interest Owners. Such vote will be final and Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5 INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

1. Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, powers, authority and privileges, except as expressly otherwise provided in this Agreement and in the Unit Agreement.

2. Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights and privileges:

a. Access to Unit Area. Access to the Unit Area, at all reasonable times, to inspect the operations hereunder and all wells and records and data pertaining thereto.

b. Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data pertaining to Unit Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

c. Audits. The right to audit the accounts of Unit Operator according to the provisions of Exhibit "E".

ARTICLE 6
UNIT OPERATOR

1. Unit Operator. Grand Resources is hereby designated as Unit Operator.

2. Resignation or Removal. Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having Eighty percent (80%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective until sixty (60) days after the first day of the month following the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

3. Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners as provided in Section 8, of the Unit Agreement.

4. Records and Information. The Unit Operator resigning or being removed shall give complete cooperation to the new Unit Operator and shall deliver to its successor all records and information necessary to the discharge of the new Unit Operator's duties and obligations.

ARTICLE 7
POWERS AND DUTIES OF UNIT OPERATOR

1. Exclusive Rights to Operate Unit. Subject to the other provisions of this Agreement, and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right, and shall be obligated, to conduct Unit Operations.

2. Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or in similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from the gross negligence or willful misconduct of Unit Operator.

3. Liens and Encumbrances. Unit Operator shall endeavor to keep the land and leases in the Unit Area, free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

4. Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours or labor and the compensation for services to be paid any and all such employees shall be determined by Unit Operator. Such employees shall be employed by Unit Operator.

5. Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

6. Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner periodic reports of the development and operation of the Unit Area.

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

8. Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the log of, and copies of engineering and geological data pertaining to any wells drilled by Unit Operator at Unit expense.

9. Expenditures. Unit Operator is authorized to make single expenditures not in excess of fifteen thousand (\$15,000.00) dollars without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owner, as promptly as possible, the nature of the emergency and the action taken.

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

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

ARTICLE 8 TAXES

1. Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions, whether on real or personal property and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such property taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest production payment or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date land shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Unit Operator, to protest and resist any such assessment.

2. Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, windfall profits tax and other taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

3. Income Tax Election. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the Parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each Party hereto give further evidence of this election, each such Party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the Unit Area is located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the Parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing election, each of the Parties states that the income

derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 9 INSURANCE

Insurance. Unit Operator, with respect to Unit Operations, shall:
(a) comply with the Workmen's Compensation Laws of the State of New Mexico,
(b) carry Employer's Liability and other insurance required by the laws of the State of New Mexico, and
(c) provide other insurance as set forth in Exhibit "D".

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

1. Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of:
 - a. Wells and Well Equipment. All wells located upon the Unit Area, together with the casing, tubing, and downhole equipment up to and including the christmas tree.
 - b. Lease and Operating Equipment. All lease and operating equipment, salt water disposal wells and facility systems related to the unitized formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations.
 - c. Records. A copy of all production and well records pertaining to any well which has historically or is currently producing from the Unitized Formation.

2. Inventory and Evaluation of Personal Property. Working Interest Owners shall appoint an inventory committee which shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least five (5) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit Operations. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May, 1971, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E", Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and necessary. It is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

3. Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the provisions of Article 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations. Within sixty (60) days after receipt of such inventory and valuations each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all parties if approved by Working Interest Owners owning as much as sixty-five percent (65%) of the Working Interest in the Unit Area.

4. Investment Adjustment. As soon as practicable after approval by Working Interest Owners of the inventory and valuations as provided in Article 10.3, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Articles 10.1.a and 10.1.b, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Sections 10.1.a and 10.1.b by such Working Interest Owner's Unit Participation, as shown on Exhibit "C", attached hereto. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

5. General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facilities systems, and office building necessary for, and directly related to, Unit Operations shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

ARTICLE 11 WELLS

1. Existing Wells. All wells upon the Unit Area which have been completed for production within the unitized formation are deemed necessary for Unit Operations and shall be delivered to Unit Operator in accordance with Article 10.

2. Necessary Wells. In the event it becomes necessary, or advisable, that additional wells be drilled upon the Unit Area, whether for production purposes, disposal purposes or for use as injection wells, the costs thereof shall be a unit expense to be borne by all Working Interest Owners in accordance with Exhibit "C".

ARTICLE 12 DEVELOPMENT AND OPERATING COSTS

1. Basis of Charge to Working Interest Owners. Subject to the provisions of Section 12.2 hereof, Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expenses. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E" attached hereto. Each Working Interest Owner's share of such charges shall be the same as its Unit Participation.

2. Advance Billings. Unit Operator shall have the right, at its option, to require other Working Interest Owners to advance their respective proportions of estimated development and operating costs and expenses by submitting to such other Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each such other Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of

each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

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

4. Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of 1½% (one and one-half percent) per month. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

5. Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 12.4 of this agreement.

6. Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 12.4 hereof entitled "Lien and Security Interest of Unit Operator and Working Interest Owners." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 12.4 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

7. Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

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

ARTICLE 13
NON-UNITIZED FORMATIONS

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

2. Multiple Completions. No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion with the Unitized Formation unless such multiple completion and subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedure described in Article 4.3 of this Agreement.

ARTICLE 14
TITLES

1. Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest as shown to be owned by it on appropriate Exhibits to this Agreement and that such interest is not subject to any liens, mortgages or other encumbrances, hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to the failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of Unit Expense or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

2. Failure of Title Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 15
LIABILITY, CLAIMS AND SUITS

1. Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing contained herein shall ever be construed as creating a partnership of any kind, joint venture or an association or trust between or among Working Interest Owners.

2. Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed _____
Ten thousand (\$10,000.00) Dollars

and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "E". If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator

by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 16

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

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

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

ARTICLE 18

ABANDONMENT OF WELLS

1. Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of sixty (60) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within sixty (60) days after said Working Interest

Owners have so notified Unit Operator of their desire to take over such well, they shall pay the Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well, except casing and other equipment originally contributed at no cost. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with all applicable laws and regulations.

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

ARTICLE 19 EFFECTIVE DATE AND TERM

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

2. Term. This agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until (a) all Unit Wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with article 20 hereof, (b) all personal and real property acquired for the Joint Account of Working Interest Owners have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20 ABANDONMENT OF OPERATIONS

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

- a. Oil and Gas Rights. Oil and Gas Rights in and to each separate shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.
- b. Right to Operate. Working Interest Owners of any Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value, as determined by the Working Interest Owners, of the equipment in and on the well, except casing and other equipment originally contributed at no cost, and by agreeing to properly plug the well at such time as it is abandoned.
- c. Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.
- d. Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.
- e. Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof in proportion to their Unit Participations.

ARTICLE 21 LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

1. Laws and Regulations. This Agreement and operations hereunder are subject to all valid laws and valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state, and local laws, ordinances, rules, regulations and orders; and any provision of this Agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

2. Certificate of Compliance. In the performance of work under this Agreement, the parties agree to comply and Unit Operator shall require each independent contractor to comply with the provisions of Exhibit "F".

ARTICLE 22
EXCISE TAX PROVISIONS

1. Crude Oil Excise Tax. For the period during which excise taxes are payable under the Crude Oil Windfall Profit Tax Act of 1980 on any party's Unitized Substances, the first crude oil allocated to any Tract after distribution of any incremental tertiary crude as hereinafter provided shall be the tax tier type of crude oil actually produced or considered to have been produced from such Tract during the base period under I.R.C. regulations but not to exceed its Tract Participation share or the amount of such tax tier type of crude oil currently available. Any excess of a tax tier type of crude oil existing after the foregoing specific identification allocation shall be allocated to the remaining Tracts in the Unit which have an under-allocation of crude oil in proportion to the amount of their relative under-allocations of crude oil. Anything hereinabove notwithstanding, any incremental tertiary oil as defined under I.R.C. Section 4993 shall be allocated to each Tract in accordance with its Tract Participation prior to any other allocation of tax tier type of crude oil under this Article 22.1 In no case shall the sum of the different tax tier types of crude oil allocated to any Tract exceed the total amount of crude oil allocable under its Tract Participation.

2. Amendment by Working Interest Owners. This Article 22 may be amended or deleted by vote of the Working Interest Owners using the voting procedure set out in Article 4.3 of this Operating Agreement if in the opinion of the Working Interest Owners (a) application of Article 22 as written becomes unworkable or inequitable as a result of changes in laws or regulations of any governmental agency, or (b) amendment or deletion of this Article 22 is necessary to comply with applicable laws, rules, regulations or orders of any governmental agency having jurisdiction.

ARTICLE 23

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

ARTICLE 24

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

Attest:

By: Jim Rowan

GRAND RESOURCES, INC.

By: [Signature]

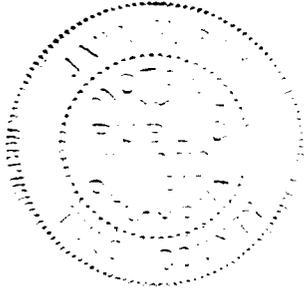
President

STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me
this 14th day of APRIL 1989, by Marvin Robinowitz
who is President of Grand Resources, Inc., an
Oklahoma Corporation, on behalf of said corporation.

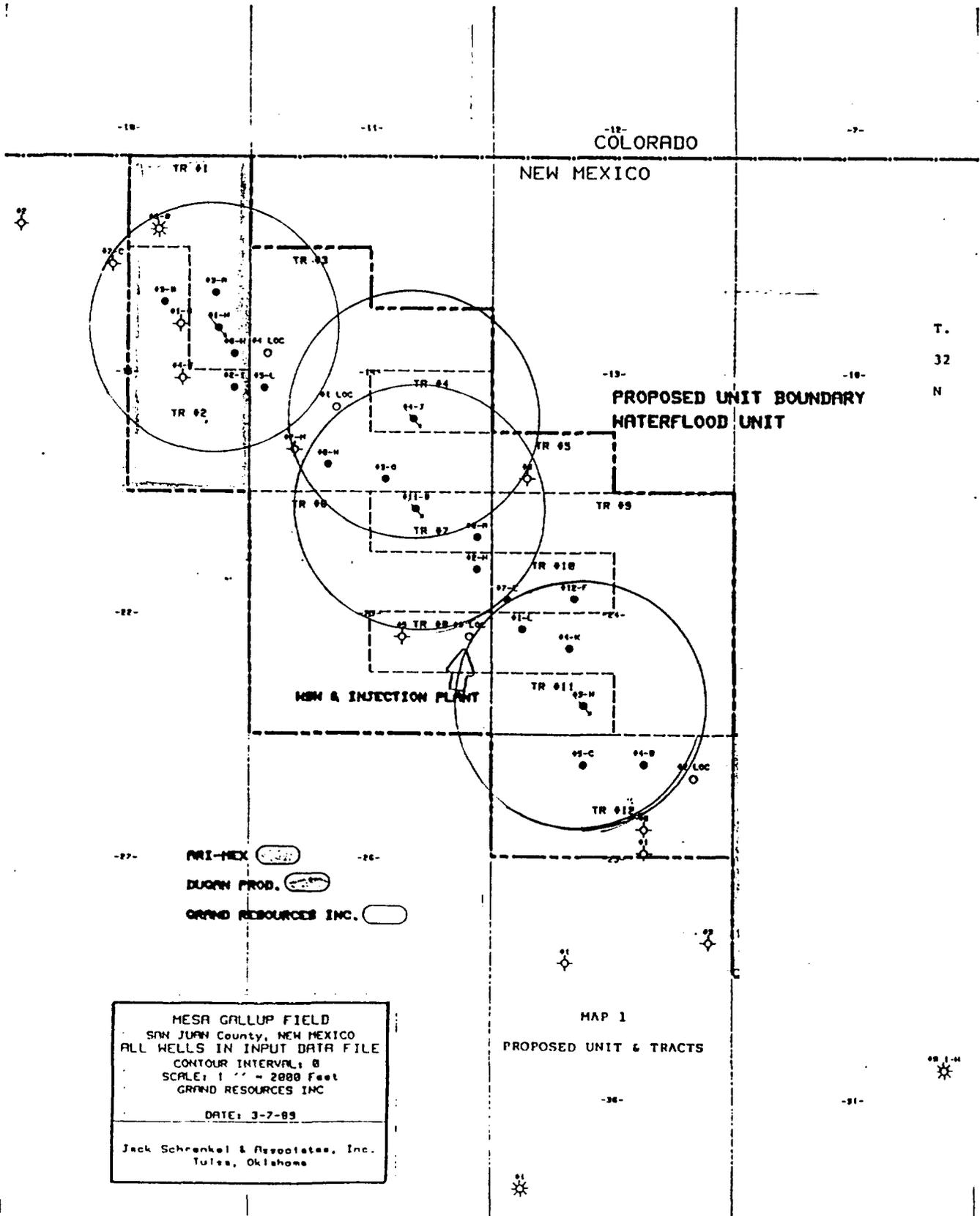
My commission expires: 7-28-90

Jana M. Rae
Notary Public



R. 18 W

R. 17 W



COLORADO
NEW MEXICO

PROPOSED UNIT BOUNDARY
WATERFLOOD UNIT

WATER INJECTION PLANT

PRI-TEX 
 DUOWN PROD. 
 GRAND RESOURCES INC. 

MESA GALLUP FIELD
 SAN JUAN County, NEW MEXICO
 ALL WELLS IN INPUT DATA FILE
 CONTOUR INTERVAL: 8
 SCALE: 1" = 2000 Feet
 GRAND RESOURCES INC
 DATE: 3-7-89
 Jack Schrenkel & Associates, Inc.
 Tulsa, Oklahoma

MAP 1
PROPOSED UNIT & TRACTS

T.
32
N

08-1-H

EXHIBIT "C"

** INTEREST IN EXPENSE (WORKING INTEREST) BY TRACTS ** 60% NET_AF, 10% WELL, 30% CUM OIL **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RESC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1172054	0.000000	0.000000	0.000000	0.000000	0.000000
2	.0254871	0.000000	0.000000	0.000000	0.000000	0.000000
3	.2730516	.1843098	.0682629	.0204789	0.000000	0.000000
4	.0143274	.0096710	.0035819	.0010746	0.000000	0.000000
5	.0029412	.0019853	.0007353	.0002206	0.000000	0.000000
6	.0545275	.0368061	.0136319	.0040896	0.000000	0.000000
7	.1129286	.0762268	.0282322	.0084696	0.000000	0.000000
8	.0022059	.0014890	.0005515	.0001654	0.000000	0.000000
9	.1289237	.0870235	.0322309	.0096693	0.000000	0.000000
10	.0804724	.0543189	.0201181	.0060354	0.000000	0.000000
11	.0934634	.0630878	.0233658	.0070098	0.000000	0.000000
12	.0944657	.0637643	.0236164	.0070849	0.000000	0.000000
1.0000000	.1426925	.5786825	.2143269	.0642981	0.000000	0.000000

** INTEREST IN NET REVENUE BY TRACTS **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RESC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1025548	0.000000	0.000000	0.000000	.0146507	0.000000
2	.0223012	0.000000	0.000000	0.000000	.0631859	0.000000
3	0.000000	.1612711	.0597300	.0179190	.0341315	0.000000
4	0.000000	.0084621	.0031342	.0009403	.0017909	0.000000
5	0.000000	.0017371	.0006434	.0001930	.0003677	0.000000
6	0.000000	.0322053	.0119279	.0035784	.0068159	0.000000
7	0.000000	.0666985	.0247032	.0074109	.0141161	0.000000
8	0.000000	.0013029	.0004826	.0001447	.0002757	0.000000
9	0.000000	.0761456	.0282020	.0084606	.0161155	0.000000
10	0.000000	.0475290	.0176033	.0052810	.0100591	0.000000
11	0.000000	.0552018	.0204451	.0061336	.0116829	0.000000
12	0.000000	.0540502	.0200186	.0060056	.0118082	.0025830
1.0000000	.1248560	.5046036	.1868903	.0560671	.1250000	.0025830

EXHIBIT "C"
 ** TRACT LEGAL DESCRIPTION AND CURRENT OPERATOR **

TRACT NO	DESCRIPTION	OPERATOR
1	SE/4 S10 - N/2 N/2 + E/2 NE/4 S15	ARI-MEX EXPLORATION
2	W/2 NE/4 + SE/4	ARI-MEX EXPLORATION
3	W/2 + N/2 NE/4 + N/2 SE/4 S14	GRAND RESOURCES
4	N/2 SE S14	GRAND RESOURCES
5	S/2 SW/4 S13	GRAND RESOURCES
6	W/2 + S/2 NE/4 + S/2 SE/4 S23	GRAND RESOURCES
7	N/2 NE/4 S23	GRAND RESOURCES
8	N/2 SE/4 S23	GRAND RESOURCES
9	E/2 + N/2 NW - N/2 SW/4.S24	GRAND RESOURCES
10	S/2 NW/4 S24	GRAND RESOURCES
11	S/2 SW/4 S24	GRAND RESOURCES
12	N/2 S25	GRAND RESOURCES

** MESA GALLUP WATER FLOOD PARAMETERS (12/88, JSA) **

TRACT NO	ACRES	GROSS-AF	NET-AF	NO WELLS	CUM OIL
1	200	740	735	4	80.88
2	240	355	135	2	10.42
3	480	3313	2800	3	97.76
4	80	167	100	1	3.70
5	80	155	40	0	0.00
6	480	489	330	1	47.34
7	80	810	760	2	88.16
8	80	60	30	0	0.00
9	480	1701	1120	2	68.53
10	80	565	430	2	72.81
11	80	835	790	1	56.92
12	320	1220	890	2	35.65
	2680	10410	8160	20	562.17

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT FOR THE MESA GALLUP UNIT, DATED JUNE 1, 1989. GRAND RESOURCES, INC., OPERATOR.

Operator and Operator's contractors and subcontractors shall, during the drilling and completing of any and all well or wells drilled on the Unit Area and during the performance of all operations, carry the following described minimum insurance coverage on the Unit Area.

- A. Employer's Liability with limit of \$500.00, and Workmen's Compensation Insurance covering Operator's employees and employees of Operator's contractors and subcontractors engaged in operations under this Agreement, in compliance with the laws of the State where the work is to be performed.
- B. General Liability Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors in the amount of \$1,000.000 combined single limit or equivalent.
- C. Automobile Liability and Property Damage Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with a combined Bodily Injury and Death limit of \$1,000.000.

EXHIBIT " E "

Attached to and made a part of UNIT OPERATING AGREEMENT FOR MESA GALLUP
UNIT, (SECONDARY RECOVERY), GRAND RESOURCES, INC., UNIT OPERATOR

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 Refer to Article 12. of the Agreement for Operator's Lien and additional provisions.

- 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 rate of $1\frac{1}{2}\%$ (one and one-half) ~~on the first day of the month in which delinquency occurs plus 1% of 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 Refer to Article 4. of the Agreement for voting procedures.

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, or twenty-six percent (26%), whichever percent is higher.

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 eight percent (8%) 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:

() shall be covered by the overhead rates, or
 (XX) 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 \$ 3,500.00
 (Prorated for less than a full month)

Producing Well Rate \$ 325.00

- (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, re-drilling, 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. _____ % of first \$100,000 or total cost if less, plus
- B. _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. _____ % 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. _____ * % of total costs through \$100,000; plus
 - B. _____ * % of total costs in excess of \$100,000 but less than \$1,000,000; plus
 - C. _____ * % of total costs in excess of \$1,000,000. *Prime Rate as shown by the Wall Street Journal on the day of the occurrence plus 2%.
- 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 2 $\frac{3}{8}$ 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 2 $\frac{3}{8}$ 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ 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 $\frac{3}{4}$ 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 "F"

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

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

III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

IV. VETERAN'S PREFERENCE

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

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

- (1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those now generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to

openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

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

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

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

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

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- (4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR § 15.4 & 5.
- (5) Operator agrees to notify non-operators of any violations in the afore provisions.

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

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

EXHIBIT "G"

GAS STORAGE AND BALANCING PROVISION

During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce each month one hundred per cent (100%) of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and each of such parties shall take its pro-rata share. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of condensate recovered.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. In addition to its share, each party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five per cent of each over-produced party's share of gas produced. If more than one party is entitled to the additional gas produced, they shall divide such additional gas in accordance with Unit participation. In the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, a complete balancing shall be accomplished by a money settlement. Such settlement shall be based upon the weighted average price received by each over-produced party for its share of gas produced and sold.

At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interest, and other payments out of or in lieu of production for which it is responsible, as if each party were taking or delivering to a purchaser its share, and its share only, or such gas production. Each party hereto agrees to hold each party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

EXHIBIT A

Dugan Production Corporation
Post Office Box 5820
Farmington, New Mexico 87499

Attn: Tom Dugan

Air Mex Corporation
First Western National Bank Building
Post Office Box 249
Moab, Utah 84532

Attn: Skip Nightengale

Bureau of Land Management
435 Montano Rd., NE
Albuquerque, New Mexico 87107

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
J. SCOTT HALL
JOHN H. BEMIS
MARTE D. LIGHTSTONE
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

March 8, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Dugan Production Corporation
Post Office Box 5820
Farmington, New Mexico 87499

Attn: Tom Dugan

Re: Application of Grand Resources Inc. for Statutory
Unitization, San Juan County, New Mexico

Gentlemen:

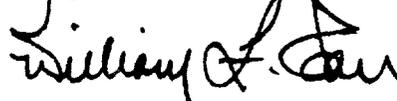
This letter is to advise you that Grand Resources Inc. has filed an application with the New Mexico Oil Conservation Division seeking an order statutorily unitizing for the purpose of establishing a secondary recovery project, all mineral interests in the designated and undesignated Mesa-Gallup Pool underlying 4800.00 acres, more or less, of Federal Indian lands in Sections 10, 13, 14, 15, 23 and 24 and the N/2 of Section 25, Township 32 North, Range 18 West and Section 30, Township 32 North, Range 17 West. Said unit is to be designated the Mesa-Gallup Unit Area. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or

Dugan Production Corporation
March 8, 1989
Page Two

substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working interest owner maintain the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

This application has been set for hearing before an Examiner of the Oil Conservation Division on March 29, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR GRAND RESOURCES, INC.

WFC:mlh

cc: Marvin Rabinowitz

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
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March 8, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Air-Mex Corporation
First Western National Bank Building
Post Office Box 249
Moab, Utah 84532

Attn: Skip Nightengale

Re: Application of Grand Resources Inc. for Statutory
Unitization, San Juan County, New Mexico

Gentlemen:

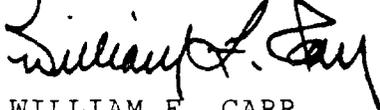
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Air-Mex Corporation
March 8, 1989
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Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR GRAND RESOURCES, INC.
WFC:mlh
cc: Marvin Rabinowitz

P-106 676 408

Send to Attn: Skip Nightengale
Air-Mex Corporation

Street and No.
Post Office Box 249

P.O. State and ZIP
Moab, Utah 84532

Postage

Certified Fee

Special Delivery Fee

Restricted Delivery

Return Receipt (to whom and Date)

Return Receipt (Date and Address)

TOTAL Postage &

Postmark or Date

March 8, 1989

1.25
1.85
1.90
2.00

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this item from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.
1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to:

Air-Mex Corporation
First Western National Bank Bldg.
Post Office Box 249
Moab, Utah 84532

4. Article Number
P 106 676 408

Type of Service:
 Registered
 Certified
 Express Mail
 Insured
 COD
 Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

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

Attn: Skip Nightengale

5. Signature - Address
X

6. Signature - Agent
X
SONSMA

7. Date of Delivery
3-10-89

PS Form 3811, Mar. 1988 • U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
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March 8, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Dugan Production Corporation
Post Office Box 5820
Farmington, New Mexico 87499

Attn: Tom Dugan

Re: Application of Grand Resources Inc. for Approval of a
Waterflood Project, San Juan County, New Mexico

Gentlemen:

This letter is to advise you that Grand Resources Inc. has filed an application with the New Mexico Oil Conservation Division seeking authority to institute a waterflood project by injection of water into the Gallup formation in its proposed Mesa Gallup Unit Area underlying Sections 10, 13, 14, 15, 23 and 24 and the N/2 of Section 25, Township 32 North, Range 18 West and Section 30, Township 32 North, Range 17 West, Mesa-Gallup Pool, San Juan County, New Mexico.

This application has been set for hearing before an Examiner of the Oil Conservation Division on March 29, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,



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WFC:mlh

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3. Article Addressed to: Dugan Production Corporation Post Office Box 5820 Farmington, New Mexico 87499 Attn: Tom Dugan		4. Article Number P 106 676 407	
5. Signature — Address X		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Insured <input type="checkbox"/> COD <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Express Mail	
6. Signature — Agent X		8. Addressee's Address (ONLY if requested and fee paid) Always obtain signature of addressee or agent and DATE DELIVERED.	
7. Date of Delivery 3-9-89			

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

P-106 676 407

Attn: Tom Dugan
 Dugan Production Corporation

Street and No.
 Post Office Box 5820

P.O. State and ZIP
 Farmington, New Mexico 87499

Postage	.25
Certified Fee	.85
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Fee to whom and Date	.90
Return Receipt Date and Address	
TOTAL Postage and Fees	2.00

Postmark or Date
 March 8, 1989

PS Form 3800, 1985

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
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March 8, 1989

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Gentlemen:

This letter is to advise you that Grand Resources Inc. has filed an application with the New Mexico Oil Conservation Division seeking authority to institute a waterflood project by injection of water into the Gallup formation in its proposed Mesa Gallup Unit Area underlying Sections 10, 13, 14, 15, 23 and 24 and the N/2 of Section 25, Township 32 North, Range 18 West and Section 30, Township 32 North, Range 17 West, Mesa-Gallup Pool, San Juan County, New Mexico.

This application has been set for hearing before an Examiner of the Oil Conservation Division on March 29, 1989. You do not need to be present at the hearing, but failure to appear at the hearing or otherwise become a party of record in this case will preclude you from challenging this matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR GRAND RESOURCES, INC.

WFC:mlh

cc: Marvin Rabinowitz

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.
 1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to: Air-West Corporation First Western National Bank Bldg. Post Office Box 249 Moab, Utah 84532 Attn: Skip Nightengale		4. Article Number P 106 676 406	
5. Signature - Address X		Always obtain signature of addressee or agent and DATE DELIVERED.	
6. Signature - Agent X <i>Skip Nightengale</i>		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery <i>8-10-89</i>			

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

P-106 676 406

Sent to: Attn: Skip Nightengale Air-Mex Corporation	
Street and No. Post Office Box 249	
P.O. State and ZIP Code Moab, Utah 84532	
Postage	.25
Registered Fee	.85
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	.90
Return Receipt showing Date and Address of Delivery	
TOTAL Postage and Fees	2.00
Postmark or Date <i>Moab 8-10-89</i>	

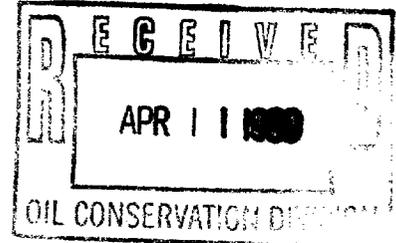
CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
J. SCOTT HALL
JOHN H. BEMIS
WILLIAM P. SLATTERY
MARTE D. LIGHTSTONE
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 11, 1989

HAND-DELIVERED



William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Case No. 9637:
In the Matter of the Application of Grand Resources Inc.
for a Waterflood Project, San Juan County, New Mexico

Dear Mr. LeMay:

Enclosed please find an original and two copies of Oil Conservation Division Form C-108 which is the written application of Grand Resources Inc. in the above-referenced case which has been set for hearing before a Division examiner on April 26, 1989.

Your attention to this matter is appreciated.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enclosures

cc w/enclosures: Certified Mail - Return Receipt Requested

Bureau of Land Management
435 Montano Rd., NE
Albuquerque, New Mexico 87107

Dugan Production Corporation
Post Office Box 5820
Farmington, New Mexico 87499

Air Mex Corporation
First Western National Bank Building
Post Office Box 249
Moab, Utah 84532
Attn: Skip Nightengale

P-106 676 394

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for rates and check boxes for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to: Dugan Production Corporation Post Office Box 5820 Farmington, NM 87499		4. Article Number P 106 676 394	
5. Signature - Address X		6. Signature - Agent X	
7. Date of Delivery 4.13.89		8. Addressee's Address (ONLY if requested and fee paid) Always obtain signature of addressee or agent and DATE DELIVERED.	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

Sent to	
Dugan Production Corp.	
Street and No.	
Post Office Box 5820	
P.O. State and Zip	
Farmington, NM	87499
Postage	\$ 1.45
Certified Fee	.85
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Fee (to whom and DOB)	.90
Return Receipt Fee (Date, and Address)	
TOTAL Postage	\$ 3.20
Postmark or Date	
April 11, 1989	

PS Form 3800, 5981 aug78

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent the card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional services requested.
 1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to: Air-Mex Corporation First Western National Bank Bldg. Post Office Box 249 Moab, Utah 84532 Attn: Skip Nightengale	4. Article Number P 106 676 395 Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD <input type="checkbox"/> Return Receipt for Merchandise <small>Always obtain signature of addressee or agent and DATE DELIVERED.</small>
5. Signature - Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X	
7. Date of Delivery 4/13/89	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

P-106 676 395

Attn: Skip Nightengale
 Air-Mex Corporation
 Post Office Box 249
 Moab, Utah 84532

Postage	1.45
Certified Fee	.85
Special Delivery	
Registered Mail	
Return Receipt for Merchandise	.90
TOTAL FEE	3.20

April 11, 1989

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent the card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.
 1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to: Bureau of Land Management 435 Montano Rd., NE Albuquerque, New Mexico 87107		4. Article Number : P 106 676 392	
5. Signature - Address <input checked="" type="checkbox"/> <i>[Signature]</i>		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD <input type="checkbox"/> Return Receipt for Merchandise	
6. Signature - Agent <input checked="" type="checkbox"/>		8. Addressee's Address (ONLY if requested and fee paid) Always obtain signature of addressee or agent and DATE DELIVERED.	
7. Date of Delivery <i>4-13-89</i>			

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

P-106 676 392

Bureau of Land Management 435 Montano Rd., NE Albuquerque, NM 87107	
Postage	1.45
Certified Fee	.85
Special Delivery Fee	
Registered Delivery Fee	
Restr. Delivery, with to whom delivered, Date	.90
Return Receipt for Merchandise Rate and Amount of Delivery	
TOTAL Postage and Fees	3.20
Postmark or Date <i>April 11, 1989</i>	

PS Form 3800, June 1987