UNIT OPERATING AGREEMENT UNDER
UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION
OF THE GALLEGOS CANYON UNIT AREA, COUNTY OF SAN JUAN
STATE OF NEW MEXICO

THIS AGREEMENT, made and entered into, as of the ____ day of _____, 19___, by and between Earl A. Benson and William V. Montin, hereinafter designated as "Unit Operator", and STANOLIND OIL AND GAS COMPANY, a corporation, and any other owners of working interests in the unitized substances within the Unit Area subject to the Unit Agreement herein below described, as may subscribe this agreement and become parties hereto, which owners are hereinafter sometimes referred to individually as "Working Interest Owner" and collectively as "Working Interest Owners";

WITNESSETH: THAT,

WHEREAS, the parties hereto have executed as of the date hereof, a certain Unit Agreement for the Development and Operation of the Gallegos Canyon Unit Area, County of San Juan, State of New Mexico, hereinafter sometimes referred to as "Unit Agreement"; and

WHEREAS, Section 6 of the Unit Agreement provides for a separate unit operating agreement to be executed by the parties hereto, wherein and whereby such parties shall agree among themselves with respect to certain matters and things relating to the development and operation of the said area.

NOW, THEREFORE, in consideration of the premises and the covenants and agreements herein contained, it is mutually agreed by and between the parties as follows:

1. UNIT PLAN CONFIRMED: The Unit Agreement for the Development and Operation of the Gallegos Canyon Unit Area and all exhibits attached thereto are hereby confirmed and made a part of this agreement and, in the event of any conflict between the provisions of the Unit Agreement and the provisions of this agreement, the provisions of the Unit Agreement shall prevail.

2. UNIT OPERATOR: Earl A. Benson and William V. Montin, the parties hereto named as Unit Operator of the Unit Area under the provisions of the Unit Agreement, or their duly appointed successor Unit Operator,

shall have the exclusive right to develop and operate the Unit Area subject to the provisions of this agreement and of the Unit Agreement. The Unit Operator shall not sustain any liability to the Working Interest Owners for any acts done or omitted, in good faith performance of any of the provisions of this agreement, and in the exercise of its judgment and discretion.

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

3. TITLES: Each Working Interest Owner hereto represents that it is now the owner of an interest in one or more of the tracts of land in the Unit Area. Within ten (10) days after the effective date of this agreement, each Working Interest Owner shall furnish the Unit Operator with up-to-date abstracts of title covering and affecting its interest, together with such original and supplemental title opinions as may be available, and in addition for lands of the United States, acceptable up-to-date reports as to the status of the lands as appears from the records of the Bureau of Land Management of the Department of Interior. The Unit Operator shall thereupon examine all title opinions, abstracts and status reports as to lands on which it has not already examined title. All expenses incurred in connection with such examination of title shall be borne by each Working Interest Owner proportionate to its respective interest in the Unit Area. Each Working Interest Owner shall severally pay the cost of curative work on its own titles. The Unit Operator shall pass upon all titles and shall approve or reject, in whole or in part, such titles. All tracts of land or parts thereon as to which title is approved by the Unit Operator, or if not approved by the Unit Operator, accepted by a controlling vote of the Working Interest Owners as provided in Section 5 hereof, shall form and comprise the Unit Area hereunder. As to leases or parts thereof not so approved or accepted, the same shall no longer be covered or affected by this agreement.

Notwithstanding approval and acceptance of titles as provided

above, each party hereto shall sustain the entire loss occasioned by any defect in or failure of its titles and Unit Operator is hereby relieved from any and all liability in connection therewith; and upon any loss of title to any land or interest committed to this agreement and the Unit Agreement there shall be an appropriate adjustment of the percentages of participation of the parties hereto, and if the interest is substantial and the true owner of such title fails or refuses to commit its interest to the said agreements, the acreage so affected shall be eliminated from this agreement and the Unit Agreement.

The Unit Operator in its capacity as Unit Operator shall sustain no liability to any party hereto for and on account of loss occasioned by reason of any erroneous payment caused by defect of title, but such loss shall be the loss of all the parties hereto owning working interests, excluding the owner whose title failed, in the affected participating area proportionate to their respective interests, without prejudice to pursue any rights in law or in equity against the defaulting party for recovery of such loss. Any future recovery of any sums so erroneously paid shall be paid or credited to said parties in like proportion.

4. DUTIES OF UNIT OPERATOR: Unit Operator shall in the conduct of operations hereunder:

(a) conduct the same in a good and workmanlike manner, and have the right and duty to conduct such operations in accordance with its best judgment of what a prudent Operator would do under the same or similar circumstances;

(b) consult freely with Working Interest Owners concerning unit operations, and keep Working Interest Owners advised of all matters arising during the operation of the Unit Area which Unit Operator, in the exercise of its best judgment, considers important;

(c) keep true and correct books, accounts and records of its operations hereunder, and permit at all reasonable times the inspection, examination and auditing of same by any party hereto;

(d) permit any party hereto to have access to the lands and premises hereunder for inspection at all reasonable times;

(e) upon written request, furnish each Working Interest Owner

with copies of all run tickets, and likewise upon request furnish each party hereto, on or before the 20th day of each calendar month, with a statement of the production, and the kinds thereof taken from each participating area during the preceding calendar month; provided, that settlement for gas sold will be made by the 25th day of the second month following the month in which sales were made;

(f) on request furnish any Working Interest Owner a copy of the log of any well and other engineering data pertaining to unit operations and samples from the cores and cuttings encountered in drilling wells, provided that such Working Interest Owner gives Unit Operator written notice of its desire to have such samples prior to the commencement of the well;

(g) comply with all valid applicable Federal and State Laws and regulations; and

(h) keep the land in the unit area free from liens and encumbrances occasioned by its operations, save only the lien granted the Unit Operator under this agreement.

5. LIMITATIONS ON UNIT OPERATOR: In any matter in which the action of the Unit Operator requires the concurrence of the Working Interest Owners, Unit Operator will be governed by the decision of the owners of 60% of the working interest in the affected participating area, unless otherwise specified herein or in the Unit Agreement, determined in the proportion that the acreage interest of each such participating party bears to the total acreage interest in the participating area. Matters affecting the Unit Area as a whole, shall be determined in accordance with the proportionate acreage interest as above defined in the entire Unit Area; provided, that if any one Working Interest Owner holds 60% or more of the working interest in the affected participating area or in the Unit Area, as the case may be, the concurrence of an additional Working Interest Owner or Owners owning at least 5 percent voting interest shall be required in order to constitute a concurrence of Working Interest Owners within the meaning of this section. The Unit Operator, except when otherwise required by Governmental authority, shall not do any of the following without first obtaining the concurrence of the Working Interest Owners, as provided above,

in the affected participating area or Unit Area:

(a) Locate, drill, or let any contract for drilling or recompleting any well or wells. Except as is otherwise provided in Section 16 hereof, all parties shall participate in the cost of drilling all wells authorized by a 60% vote, as provided above. The approval of the drilling or recompletion of any well shall be construed to mean and include the approval of any necessary expenditures for the drilling, completing and equipping of such well, including the necessary lines, separators, and necessary tankage if a producer, and if a dry hole the plugging and abandonment thereof, except as otherwise provided in Section 10 hereof, provided that this provision shall not prevent the operation of Section 12 of the Unit Agreement.

(b) Make any expenditure in excess of $5,000.00 other than normal opera ting expenses.

(c) Make any arrangements for the use of facilities owned by one participating area and used in the operation and development outside of said area, nor determine the amount of any charges therefor, unless otherwise provided for in this agreement or in the Unit Agreement.

(d) Make any expenditure for expert technical advice including any extra services rendered by Unit Operator's technical staff not contemplated by the provisions of the Accounting Procedure, hereto attached, marked "Exhibit 1", and not covered by the overhead, district, and camp expenses therein authorized, which overhead in said Accounting Procedure is intended to only cover normal development and operations.

(e) Make any partial relinquishment of its rights as Unit Operator.

(f) Abandon any well or wells or dispose of any major items of surplus material or equipment other than junk, having an original cost of $1,000.00 or more (any such item or items of less cost may be disposed of without such consent), except as otherwise provided in Section 19 hereof.

(g) Submit to the Federal Oil and Gas Supervisor or the Commissioner of Public Lands of the State of New Mexico any plan for development of the Unit Area or any participating area or amendment thereof, or

submit to the Supervisor or the Commissioner any proposed expansion or contraction of the Unit Area or any designation or enlargement of a participating area unless otherwise required so to do by the Supervisor or the Commissioner under the terms of the Unit Agreement.

(h) Fix or approve the basis of investment adjustment or the adjusted basis of prorated future development and operating costs and participation upon enlargement or reduction of the Unit Area or enlargement of any participating area or upon elimination of acreage for failure of title.

(i) Readjust the percentages of participation.

(j) Make any arrangements for repressuring or cycling or any change in the existing method of operation.

In case of blow-out, explosion, fire, flood, or other sudden emergency, Unit Operator may take such steps, and incur such expense, as in their opinion are required to deal with the emergency and to safeguard life and property; provided that Unit Operator shall, as promptly as possible, report the emergency to the other parties and shall endeavor to secure any sanction which might otherwise have been required.

Subject to the provisions hereof, Unit Operator shall have full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

In the event that there shall hereafter be such number of Working Interest Owners as to make operations under this section unwieldy, it shall be competent for the parties by amendment to this agreement to provide for an Operating Committee which shall have authority to represent the Working Interest Owners and exercise on their behalf powers and functions as set forth in this agreement.

It is specifically understood, that if the working interest in the initial participating area or any subsequent participating area or areas is owned by one party, such party shall alone control the action of the Unit Operator in all matters referred to above in respect thereto until such area or areas are enlarged to include an additional working interest owner or owners therein.

6. INSURANCE: Unit Operator agrees that Contractors or Subcontractors will carry insurance as follows, to cover drilling and development operations on all lands subject to this agreement:

(a) Workman's Compensation Insurance as required by the laws of the State of New Mexico.

(b) Contractor's Public Liability Insurance in amounts of $20,000.00 for injuries for one person and $60,000.00 for injuries in one accident.

(c) Automobile Public Liability and Property Damage Insurance in amounts of $10,000.00 for injuries to one person, $20,000.00 for injuries in one accident and $5,000.00 for property damage.

With respect to production operations on all lands subject to this agreement, Unit Operator shall carry with a reputable insurance carrier, Workmen's Compensation Insurance, Contractor's Public Liability Insurance with limits of $15,000.00 for one person and $25,000.00 for one accident, and Automobile Public Liability Insurance with limits of $25,000.00 for one person, $25,000.00 for one accident and $5,000.00 for property damage.

Unit Operator shall carry insurance required under this agreement at the expense of the parties hereto and for the benefit of Working Interest Owners hereunder; however, premiums for Automobile Public Liability and Property Damage Insurance on Unit Operator's fully-owned equipment shall not be charged directly to the joint account, but will be covered by the flat rate charges assessed for use of such equipment. Unit Operator will not carry fire, windstorm and explosion insurance covering operations hereunder.

7. COST OF OPERATIONS: The actual cost to the Unit Operator of performing its obligations as Unit Operator hereunder shall be kept separately for each participating area, and in each area such cost shall be apportioned in the same ratio as that defined in the Unit Agreement for the allocation of production in that area, and as so allocated shall be paid as hereinafter provided by the several Working Interest Owners, and as nearly as may be done all charges shall be charged directly to each participating area and the operations served. The method and detail of

making and settling for such costs, charges, income, credits for materials and other items in connection with said operation shall be as provided by the Accounting Procedure marked "Exhibit 1" attached hereto, except as follows: the Unit Operator will not apportion any part of the salaries and expenses of their District Superintendent, other general district employees or district office expenses to the joint account, as provided by Paragraph 11, of Section II, and the monthly per well Overhead rates set forth under Section 8 hereof shall be in lieu of Unit Operator's District Superintendent, other general district employees, and district office expenses, as well as Unit Operator's division office and principal business office expenses, but shall not be in lieu of Unit Operator's Field Superintendent, general field employees, and field office and camp expenses; provided, however, in the event of any conflict between the provisions contained in the body of this instrument or in the Unit Agreement and those contained in said Accounting Procedure, the provisions of the former shall govern to the extent of such conflict. The term "Non-Operators" as used in "Exhibit 1" shall be deemed to refer to the Working Interest Owners herein.

Unit Operator is hereby granted a prior lien upon the rights and interest of each Working Interest Owner in the Unit Area and the unitized substances allocated to each such Working Interest Owner, and the material and equipment thereon, to secure the payment of its proportionate part of the said costs and expenses. Should any Working Interest Owner fail to pay its proportionate part of said costs and expenses within thirty (30) days after being billed therefor as provided for in the referred to Accounting Procedure, "Exhibit 1", Unit Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien upon the respective interests of such Working Interest Owner.

Unit Operator, at its election, may request each Working Interest Owner hereto to advance its respective proportion of the development and operating costs hereunder in accordance with an estimate by Unit Operator to be made not less than ten (10) days in advance of the month in which the costs and expenses are to be incurred. Adjustments between estimates and actual costs shall be made by the Unit Operator at the close of each calendar month and the accounts of the Working Interest Owners adjusted accordingly.

8. OVERHEAD CHARGES: In lieu of subparagraphs A, B, C, and D of Paragraph II-12 of the Accounting Procedure, "Exhibit 1", hereto attached, the following overhead rates shall apply:

(a) The amount per well per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be; except that no charge shall be made during suspension of drilling operations for 15 or more consecutive days, shall be as indicated in subparagraph (c) of this Section 8 in column B based on the completion depth of the well set forth in column A.

(b) The amount per well per month for the first 5 producing wells, the second 5 producing wells, and for all producing wells over 10, as the case may be, shall be as set forth in subparagraph (c) of this Section 8 in column C based on the completion depth of the well set forth in column A.

(c)

Column A	Column B	Column C		
	Amount/Each	Amount/Each Producing Well		
Depth	Drilling Well	First 5	Second 5	Over 10
Wells under 4000 feet	$100	$25	$15	$10
Wells 4000 feet to 8000 feet	$175	$40	$30	$25
Wells below 8000 feet	$300	$60	$50	$40

9. DRILLING CONTRACTS: All wells drilled in the Unit Area by Unit Operator after the effective date of this agreement shall be drilled on a competitive contract basis at the usual rates prevailing in the region of the Unit Area. Unit Operator, if it so desires, may employ its own tools and equipment in drilling of such wells, but in such event the charge therefor shall not exceed the competitive prevailing rate charged by independent contractors doing work of a similar nature. If it uses its own tools, the terms and charges for such drilling shall be on the same basis as if the contract were let on a competitive basis to a substantial and reliable drilling contractor in the same area, and Operator shall assume all risks and liabilities growing out of the drilling of the well as if it were an independent contractor.

10. INITIAL TEST WELLS: The parties hereto agree to drill six initial test wells within the Unit Area to the depths hereinafter specified and at the designated locations; provided that the locations may be moved,

a reasonable distance if the surface terrain is such as to make access to the designated locations unreasonably expensive.

Test No.	Test Depth	Location
1	Pictured Cliffs Formation	1980' from S&W lines of Sec. 19, T-29-N, R-12-W
2	Pictured Cliffs Formation	1980' from S&W lines of Sec. 35, T-29-N, R-12-W
3	Pictured Cliffs Formation	1980' from S&W lines of Sec. 24, T-28-N, R-12-W
4	Pictured Cliffs Formation	1980' from N&E lines of Sec. 34, T-28-N, ~~R-13-W~~ R-12-W
5	Pictured Cliffs Formation	1980' from N&E lines of Sec. 13, T-28-N, R-13-W
6	Dakota Formation	1980' from S&W lines of Sec. 22, T-28-N, R-12-W

The cost of drilling, equipping and completing the test wells set out above, and the cost of plugging and abandoning same if dry, shall be paid (and advanced, if required by Unit Operator) by all the parties hereto in the proportion that their respective Working Interest acreage holdings in the Unit Area bear to the total Working Interest acreage holdings in the Unit Area owned by all parties hereto, provided, however, that Stanolind Oil and Gas Company's share of said costs shall be borne by Earl A. Benson and Wm. V. Montin, in accordance with the terms of that certain Agreement between Stanolind Oil and Gas Company and Earl A. Benson and Wm. V. Montin, dated December 1, 1949. The parties hereto irrevocably agree to the locations and drilling of said wells without further authority from the parties hereto, said locations to be approved by the Supervisor if upon Federal lands, and by the Commission if upon State or patented lands. The successive order of drilling said wells may be prescribed by the Unit Operator; provided, however, that the Dakota test well is to be commenced within six months of the effective date of the unitization.

11. ESTABLISHMENT OF NEW PARTICIPATING AREAS: In the event any test well drilled pursuant to the provisions of the preceding section hereof shall encounter the unitized substances in quantity sufficient to justify the establishment of a participating area for the formation encountered, such participating area shall be established as provided in Section 10 of the said Unit Agreement. Upon the establishment of such participating area, there shall be a retroactive adjustment of the cost of drilling, completing,

equipping for the production and operating the said test well from the commencement of operations on said well until the first day of the calendar month next succeeding the approval of the participating area by the Secretary of the Interior to the end that the Working Interest Owners in the Participating Area established shall reimburse the parties who paid for the cost and expense of drilling, completing, equipping for production, and operating the well, for the cost thereof without interest, less any income derived by them up to the date of settlement, and thereafter the costs and benefits derived from the operation of the well shall be borne by and inure to the benefit of the Working Interest Owners in the participating area, and the Working Interest Owners in the non-participating portion of the Unit Area shall thereafter be liable for no part of the costs and entitled to no part of the benefits derived therefrom.

The above described retroactive adjustment of the cost of drilling, completing, equipping for production and operating said well shall be to the end that each Working Interest Owner's share of said cost shall be in the proportion that its acreage within the participating area bears to the total acreage in the participating area. All allocation of production and the benefits therefrom shall be on an acreage basis as provided in Section 11 of the Unit Agreement.

In the event any well is multiply completed as a paying producer in more than one formation, the Working Interest Owners of the respective participating areas established for such formations shall arrange for an appropriate allocation of investment and operating costs of such well by separate agreement.

12. DEVELOPMENT WELLS WITHIN A PARTICIPATING AREA: The Unit Operator may drill a well within the boundaries of an established Participating Area and to the Participating Formation for the account and at the sole cost, risk and expense of the Working Interest Owners within said Participating Area only after obtaining the consent of the parties as provided in Section 5 hereof. If less than 60% of the Working Interest Owners desire to participate, the well may be drilled in the same manner as provided in section 16 for wells outside of a Participating Area. If a dry hole, it shall be plugged and abandoned at the cost of the parties parti-

cipating in the cost of drilling.

13. EXTENSION WELLS TO AN ESTABLISHED PARTICIPATING AREA: When the drilling of an extension well to an established Participating Area is proposed, the costs of drilling, completing, equipping and operating said well and the manner of its inclusion into the participating area shall be determined as follows:

(a) The Unit Operator may drill any extension well within the Unit Area but outside the boundaries of an established Participating Area for the account and at the sole cost, risk and expense of the Working Interest Owners within the said Participating Area only after obtaining the consent of the parties as provided in section 5 hereof. If it results in a paying producer, or an injection well, the participating area shall be enlarged to include said well, as provided in the first paragraph of section 14 hereof. If a dry hole, it shall be plugged and abandoned at the cost of the parties participating in the cost of drilling.

(b) If the costs of an extension well are not provided in the manner described by the preceding paragraph, the Working Interest Owners of the tract on which the well is located shall have the next opportunity to finance said costs; and in that event, each owner's share will be in the proportion that his acreage within the tract bears to the total acreage within the tract; provided that 100% of the Working Interest Owners on the tract desire to participate in these costs in this manner. If the drilling of said well results in a paying producer, or an injection well, the participating area shall be enlarged to include said well as provided in the first paragraph of section 14 hereof and the accounting of costs and allocation of revenue shall be governed by the last paragraph of section 14 hereof. If a dry hole, it shall be plugged and abandoned at the cost of the parties participating in the cost of drilling.

(c) If the costs of the proposed well are not furnished by either manner described above, the costs shall be determined by the provisions of section 16 hereof. If the drilling of said well results in a paying producer or an injection well, the participating area shall be enlarged to include said well, and there shall be an investment adjustment on an acreage basis, similar to that described in the first paragraph of section 14 hereof. The accounting of costs and allocation of revenue shall be governed by the last paragraph of section 14 hereof.

14. CHANGE OF PARTICIPATING AREA - INVESTMENT ADJUSTMENT:

Separate participating areas for different formations may be established and any participating area may be diminished on account of failure of title or may be enlarged, all as provided by the said Unit Agreement and this agreement. On the enlargement of any participating area there shall be an investment adjustment between the owners of working interest in the enlarged participating area who are parties hereto and the Working Interest Owners in the former participating area who are parties hereto, to the end that the investment in wells, well equipment, facilities, and all other property within the enlarged participating area shall be paid for by the affected Working Interest Owners in the enlarged participating area proportionate to the interest of each in the cost of operation and revenue derived from the enlarged participating area, and also to the end that the parties who have previously paid said costs shall be reimbursed on the basis hereinafter set forth. The affected Working Interest Owners in the participating area before its enlargement shall receive credit for the intangible cost of drilling, completing, and equipping for production all wells capable of producing unitized substances situated within said participating area. The costs to be so credited shall be measured by the average cost of drilling, completing and equipping for production wells of like character and depth in that region in a good and workmanlike manner at the time when said wells were drilled. Credit shall also be given for the casing and other tangible property and facilities installed in the well and for any new structures, facilities or other property at a percentage of original cost, such percentage to be separately agreed upon by the Working Interest Owners in the enlarged participating area. The affected Working Interest Owners on any tract outside of the participating area that is to be admitted to the enlarged participating area shall likewise receive credit for the intangible cost of drilling, completing, and equipping any wells on their respective leases, together with the value of the tangible equipment, facilities, and structures located thereon and used in connection therewith on the basis as last hereinabove set out. The sum total of all credit shall be the investment cost apportionable to the enlarged participating area. The investment adjustment shall be made by cash settlement through the Unit Operator. No

credit shall be given for the previous cost of operating any wells or repairing or maintaining other property, nor shall there be any debit for and on account of production taken from wells prior to the effective date of the enlargement of the participating area.

In the event any well (except the six wells specified in Section 9 hereof) is not drilled at the cost and risk of all of the Working Interest Owners in the Participating Area, or at the cost and risk of all of the Working Interest Owners in the Unit Area in the event the well is included in a Participating Area, and it results in a paying producer, or an injection well, the well shall be operated by the Unit Operator to the end that separate accounts shall be maintained as to costs and production of said well, and the entire Working Interest portion of the production from said well shall be first allocated to the Working Interest Owners who participated in the cost and expense of drilling said well in proportion to their contribution to the cost of such well, until said Working Interest Owners have received from the proceeds thereof, 150% of the cost of drilling, testing, completing and equipping said well after deducting 100% of the operating costs attributable to said well to the date of reimbursement; provided that the allocated production of the well, if an injection well, shall be as defined in Section 11 of the Unit Agreement. After the parties who participated in the cost of drilling said well have been fully reimbursed to the extent above described, then and thereafter said well shall be operated by the Unit Operator for the joint account of all Working Interest Owners within the participating area, and the subsequent costs and expenses of operation and the production derived therefrom shall be apportioned in the same manner and in the same proportion as if all Working Interest Owners within the participating area had originally participated in the drilling of said well on an acreage basis.

15. MARGINAL WELL - SEPARATE OPERATION: In the event that any well drilled under the provisions of section 10, 13 or 16 hereof shall encounter the unitized substances in producible but not in paying quantities, so that the well is not admitted to any participating area, it may be separately operated by the parties who financed the drilling thereof for their own account as provided by Section 12 of the Unit Agreement. If the drilling of the well was financed by parties other than the Working Interest Owners

on the well tract, such Working Interest Owners may at any time take over the well by reimbursing the parties financing the same for the unrecovered portion of the drilling and operating costs thereof; but if the parties who financed any such well desire to abandon the same, the Working Interest Owners on the well tract may then take over and operate the well by payment of the fair salvage value of the casing and other necessary equipment left in the well, provided also that if the Working Interest Owners on the well tract do not elect to take over and operate such well, the same shall be plugged and abandoned at the cost of the parties who financed such well.

16. DRILLING OF ADDITIONAL WELLS: Except for the first six test wells to be drilled in the Unit Area under this Agreement, as provided in Section 10 hereof, any Working Interest Owner who desires to be relieved of the obligation to contribute to the cost and the obligation to share in the risk of drilling any subsequent well at a location outside the boundaries of an existing participating area, or to test any untested formation, including any well drilled under the provisions of Section 13 hereof, may be so relieved by notifying the Unit Operator in writing prior to the commencement of operations for the drilling of said well.

In the event it is decided to drill any additional test well outside the established boundaries of an existing participating area, or prior to the establishment of an additional participating area, or any additional test wells to test heretofore untested formations, such wells shall be drilled by the Unit Operator, except as otherwise may be provided by this Agreement. The basis of contribution to the cost of such wells shall be made the subject of a special Agreement between the Unit Operator and the Working Interest Owners who participate in the drilling of such wells, and the accounting and distribution of income derived therefrom shall be governed by the last paragraph of Section 14 hereof.

17. DISPOSAL OF PRODUCTION: Each party taking his share of the production in kind agrees to reimburse the Unit Operator for all costs and expenses incident to separate handling, including the provision of suitable tankage or other arrangements required for separately handling or disposing of such share of production. Unit Operator shall, without partiality or preference, make delivery of such unitized substances of each owner of production

the same as such party may from time to time direct and each party shall be entitled to the same use of all unit storage and delivery facilities and no discriminatory charge of any kind for such use shall be made by Unit Operator. It is intended that the unitized substances to be delivered in kind to the owners of production shall be divided in such manner that each such party shall receive unitized substances of like quality and gravity to those received by the other affected parties. If such division of unitized substances is impractical or uneconomical, the owners of production shall agree on a method of making monthly adjustments to equalize the division of unitized substances and to compensate for any inequalities occasioned by differences in quality or gravity in actual deliveries. Section 7 of the Unit Agreement shall be so construed as to be in harmony with the provisions of this section.

18. TAXES: All ad valorem taxes assessed on privately owned land within the Unit Area shall be paid by the owner of the land unless otherwise provided in any contract or agreement between such owner and a Working Interest Owner hereunder. Each Working Interest Owner, however, shall ascertain that the land contributed by it to the Unit Area shall not be sold for nonpayment of any ad valorem taxes constituting a lien thereon and in the event of such sale, such Working Interest Owner shall, at its own expense, effect the redemption of such land or take any other measures permitted by law or the terms of its lease to prevent the loss of the land as a result of the tax sale.

Unit Operator, subject to the provisions of the Unit Agreement, shall render and pay all taxes on tangible personal property owned by the Working Interest Owners in any participating areas and all other taxes of any nature or kind whatever (except the Federal and State income taxes in any state, licenses, franchises, or other similar tax necessary to be paid by the parties hereto to maintain their corporate existence) and shall charge to and collect such taxes from the respective Working Interest Owners in the respective participating areas in proportion that each of such parties participates in the unitized substances produced therefrom as set out in the percentage participation schedules applicable to such areas.

In the event any taxable valuation is assessed on or against said

property or any portion thereof, which the Unit Operator deems to be unreasonable, it shall be the duty of Unit Operator to protest said taxable valuation within the time and manner as prescribed by law, and prosecute such protest to final determination. When any such protested valuation of such property shall have been determined, Unit Operator shall pay, for the joint account, the taxes thereon, together with any interest or penalty accrued by reason of such protest, and bill each party for its proportionate share of such payments in accordance with the Accounting Procedure, "Exhibit 1", hereto attached.

19. OPTION AS TO ABANDONMENT OF WELLS: If the parties hereto are unable to agree as to the proposed abandonment of any well or wells, then such party or parties not desiring to abandon the same shall tender to the other affected Working Interest Owner or Owners a sum equal to the last named parties' proportionate share in the salvage of the material and equipment in said well or wells determined in accordance with the Accounting Procedure "Exhibit 1" hereto attached and upon receipt of said sum, the said parties wishing to abandon said well shall assign to the other Working Interest Owners their rights down to and including the producing formation in the land on which said well is situated, to the extent of the forty (40) acre legal subdivision, or fractional lots approximating same, embracing such well, unless a well spacing pattern has been adopted or used in the field designating a lesser acreage for such well, in which event it shall be in amount and location to accord with such well spacing pattern, and said well may thereafter be operated by the Unit Operator for the separate account of the remaining Working Interest Owners, but the land so assigned shall not include any other well.

20. ASSIGNMENTS: Any Working Interest Owner may at any time transfer or assign all or any part of his working interest to any other Working Interest Owner who is then a party to the Unit Agreement and to this agreement or to any other person, association or corporation, when such assignment is made expressly subject to the terms of the Unit Agreement and the terms of this agreement, and wherein the assignee shall accept and agree to perform all duties, obligation, and liabilities thereof. In such assignment, it shall be competent for the assignor to reserve

a royalty interest. Upon the making of such assignment, irrespective of whether a royalty interest is reserved, the assignor shall thereupon be relieved of all future duties, obligations and liabilities of a Working Interest Owner under this agreement and under the Unit Agreement. A partial assignment of working interest shall be effective as above described to the extent of the interest so assigned.

21. WITHDRAWAL OF PARTY: If any party hereto so desires, it may withdraw from this agreement by conveying, assigning, and transferring without warranty, either express or implied to the other parties hereto who do not desire to withdraw all of its right, title and interest in and under the leases included in the Unit Area, together with the withdrawing party's interest in all wells, casing, material, equipment, fixtures, and other personal property belonging to the joint account, but such conveyance or assignment shall not relieve said party from any obligation or liability accruing or incurred prior to the date thereof. The interest so conveyed and assigned shall be held and owned by the assignees in the proportion set out in applicable percentage participation schedules and; thereupon the withdrawing party shall be relieved from all obligations and liabilities thereafter to accrue under this contract, and the right of such party to any benefits subsequently accruing hereunder shall cease; but assignee shall pay assignor for its interest in all casings, material, equipment, fixtures, and other personal property owned by the joint account at the salvage value thereof, computed in accordance with the Accounting Procedure, "Exhibit 1", hereto attached.

22. LIABILITY: The liability of the parties hereunder shall be several and not joint or collective. Each party shall be individually responsible only for its own obligations as set out in this agreement and shall be liable only for its proportionate share of the costs and expenses as provided by this contract, and nothing herein contained or implied shall be deemed to create a partnership between or among the parties hereto. Whenever in this agreement reference is made to operations for the account of any of the parties hereto or to charges or credit to the account of the parties hereto, or whenever similar language is used, the parties use such language merely as a convenient method of referring to the accounting

necessary between them, and it is agreed that no such phraseology shall ever be construed as creating any joint liability upon the part of the parties hereto for any obligation incurred under this agreement, or as setting apart or creating any fund or jointly owned property for the satisfaction of any such obligation; or as creating a common fund for any other purpose. No funds received by Unit Operator under this agreement, whether received as proceeds from the sale of unitized substances, or as advances or as payments on account of costs or expenses, or otherwise, need be segregated by Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds and distributed by Unit Operator as provided for in this agreement.

Unit Operator shall not be liable or responsible for any damage to the Unit Area or the property, equipment or facilities used in the development and operation thereof, or for the loss of any production arising out of its operation of the Unit Area, except only for bad faith or gross negligence in connection therewith.

If, and in the event, notwithstanding the foregoing provisions of this section, the Unit, the Unit Operator or any member of the Unit is held liable by a court of competent jurisdiction for any matter or thing for which it is herein provided the Unit or person so named shall not be liable, the amount of such liability as finally determined shall thereupon be treated, regarded and paid as an item of unit expense.

23. NOTICES: All notices required or permitted to be given hereunder shall be in writing and shall be deemed to have been properly served and addressed when sent by mail or telegram to the parties executing this agreement at the addresses set opposite their respective names.

24. SUBSEQUENT JOINDER: Any Working Interest Owner having interests in the Unit Area who for any reason does not subscribe to this agreement at the time of its inception may subsequently become a party thereto by signing an instrument with the Unit Operator expressly ratifying this agreement; however, the Unit Operator may in its discretion refuse to admit a Working Interest Owner to participation in this agreement unless all the Working Interest Owners having interests in the tract or tracts of land in which the applicant Working Interest Owner

has an interest likewise elect to join. The Unit Operator shall promptly furnish to the remaining Working Interest Owners who are then parties hereto, with copies of all such instruments. Any Working Interest Owner seeking to commit his interest to the Unit Agreement after operations have commenced, but before a participating area is formed, must pay the Unit Operator for the account of the other Working Interest Owners, his pro rata share of all drilling and development costs incurred by the Unit to the date of his admission, including, but not by way of limitation, all test well costs incurred under Section 10 hereof on the basis therein set out. Any Working Interest Owner seeking to commit his interest to the Unit Agreement after one or more participating areas have been established shall pay to the Operator his pro rata share of all investments in the established participating areas in the manner and subject to the conditions prescribed in Section 14 hereof for the enlargement of the participating area.

This agreement may be executed in any number of counterparts with the same force and effect as if all the parties had signed the same document.

25. EFFECTIVE DATE AND TERM: This agreement shall become effective as to all parties executing the same upon the effective date of the Unit Agreement, and the term hereof shall be the same as that of the Unit Agreement. This agreement may be terminated in any manner by which the said Unit Agreement may be terminated.

IN WITNESS WHEREOF, the parties have executed this contract the day and year first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER

WITNESS: DATE:

_____ _____ By_____

Address: 316 Petroleum Building
Oklahoma City, Oklahoma

By_____

By_____

By_____

WORKING INTEREST OWNERS

STANOLIND OIL AND GAS COMPANY

ATTEST: DATE:

_____ _____ By_____
Assistant Secretary Vice-President

Address: P. O. Box 591
Tulsa 2, Oklahoma

ATTEST: DATE:

_____ _____ By_____
Secretary President
Address:_____

ATTEST:

_____ _____ By_____
Secretary President
Address:_____

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EXHIBIT " 1 " *Model Form-PASO-1949-1*

Attached to and made a part of Unit Operating Agreement under Unit Agreement for the Development and Operation of the Gallegos Canyon Unit Area, County of San Juan, State of New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph "B" below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. 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 accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**
Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. **Material**
Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5. **Moving Surplus Material from Joint Property**
Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. **Use of Operator's Equipment and Facilities**
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

7. **Damages and Losses**
Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. **Litigation, Judgments, and Claims**
All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
   A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.
   B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. **Taxes**
All taxes of every kind and nature assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. **Insurance**
   A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
   B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. **District and Camp Expense** See Section 7 of the Unit Operating Agreement
A proportionate share of the salaries and expenses of Operator's District Superintendent and other general district or field employees serving the joint property, whose time is not allocated direct to the joint property, and a proportionate share of maintaining and operating a district office and all necessary camps, including housing facilities for employees if necessary, in conducting the operations on the joint property and other leases owned and operated by Operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some equitable basis consistent with Operator's accounting practice.

12. **Overhead** See Sections 7 and 8 of the Unit Operating Agreement.
Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, including the division superintendent, the entire staff and expenses of the division office located at ....none...., and any portion of the office expense of the principal business office located at Oklahoma City, Oklahoma, but which are not in lieu of district or field office expenses incurred in operating any such properties, or any other expenses of Operator incurred in the development and operation of said properties; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:
   A. $....*.... per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
   B. $....*.... per well per month for the first five (5) producing wells.
   C. $....*.... per well per month for the second five (5) producing wells.
   D. $....*.... per well per month for all producing wells over ten (10).
   E. In connection with overhead charges, the status of wells shall be as follows:
      (1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.
      (2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.
      (3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
      (4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.
      (5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.
      (6) Salt water disposal wells shall not be included in overhead schedule.

*See Section 8 (c) of the Unit Operating Agreement

F. The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.

G. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Warehouse Handling Charges

none

14. Other Expenditures

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at 50% of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

E. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. **Material Purchased by Non-Operator**
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

3. **Division in Kind**
Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.

4. **Sales to Outsiders**
Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. **New Material**
New material (Condition 'A'), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. **Good Used Material**
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning
   A At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4 **Other Used Material**
Used Material (Condition "C"), being used material which
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning,
at 50% of current new price.

5. **Bad-Order Material**
Used material (Condition 'D'), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

6. **Junk**
Junk Condition 'E') being obsolete and scrap material, at prevailing prices.

7. **Temporarily Used Material**
When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. **Periodic Inventories**
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

2. **Notice**
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

3. **Failure to be Represented**
Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

4. **Reconciliation of Inventory**
Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

5. **Adjustment of Inventory**
Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

6. **Special Inventories**
Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

UNIT AGREEMENT FOR THE DEVELOPMENT AND
OPERATION OF THE GALLEGOS CANYON UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

I-Sec. No. 844

THIS AGREEMENT, entered into as of the 1st day of November, 1950, 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 or gas interests in the unit area subject to this agreement; and

WHEREAS, the term "working interest owner" as used herein and in other contracts between and among the parties relating to the subject lands shall mean and refer only to such an interest committed hereto as may be obligated to bear or share, either in cash or out of production (other than by permitting the use of unitized substances for development, production, repressuring or recycling purposes), a portion or all of the costs or expenses of developing, equipping or operating any land within the Unit Area subject to this agreement. If the working interest in any tract is or shall hereafter be owned by more than one party, the term "working interest owner", when used with respect to such tract, shall refer to all such parties owning the working interest therein; and

WHEREAS, the allotted land mineral leasing act of March 3, 1909, (35 Stat. 783, 25 U. S. C. sec. 396) authorizes the leasing of restricted allotted Indian lands subject to rules and regulations prescribed by the Secretary of the Interior; and

WHEREAS, the act of February 25, 1920, 41 Stat. 437, 30 U.S.C. Sec. 181, et seq., as amended by the Act of August 8, 1946, 60 Stat. 950, authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under 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 (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers

and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof;

WHEREAS, the parties hereto hold sufficient interests in the Gallegos Canyon Unit Area to give reasonably effective control of operations therein; and

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

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

1. ENABLING ACT AND REGULATIONS: The acts of March 3, 1909, February 25, 1920, and May 11, 1938, 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, and as to non-Federal land applicable State laws are accepted and made part of this agreement.

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

NEW MEXICO PRINCIPAL MERIDIAN

Township 28 North, Range 11 West

Sec. 7-All
Sec. 18-All
Sec. 19-All

Township 28 North, Range 12 West

Secs. 7 to 34, incl.

Township 28 North, Range 13 West

Secs. 11 to 14, incl.
Secs. 23 to 26, incl.
Secs. 35 and 36

Township 29 North, Range 12 West

Sec. 16-SW/4
Secs. 17 to 21, incl.
Sec. 22-W/2, SE/4
Sec. 25-W/2, SE/4
Secs. 26 to 36, incl.

Township 29 North, Range 13 West

Sec. 13-All
Secs. 23 to 26, incl.
Secs. 34 to 36, incl.

Total Unit Area embraces 39,324.51 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the known ownership of all land and leases in said area. Exhibit "B" attached hereto is a schedule showing the percentage and kind of ownership of oil and gas interests in all land in the unit area. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or other changes render such revision necessary, but no such revision shall be retroactive. Not less than seven copies of the revised exhibits shall be filed with the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", and two copies with the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "State Commissioner".

The above-described unit area shall when practicable be expanded to include therein any additional tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the State Commissioner, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof;

(b) Said notice shall be delivered to the Supervisor, and the Superintendent of the Navajo Indian Reservation, the Commissioner of Indian affairs hereinafter referred to as "Indian Commissioner", and the State Commissioner, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections;

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and State Commissioner evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator;

(d) After due consideration of all pertinent information, the Director and State Commissioner shall approve in whole or in part or reject the proposed expansion or contraction. To the extent that it may be approved, such expansion or contraction shall become effective as of the date prescribed in the notice thereof.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

3. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR: Earl A. Benson and William V. Pontin are hereby designated as Unit Operator and by signature hereto commit to this agreement all interests in unitized substances vested in them as set forth in Exhibit "B", and agree and consent to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as owner of interests in unitized substances.

Prior to the establishment of a participating area or areas hereunder, the Unit Operator may resign as Unit Operator whenever not in default under this agreement, but no Unit Operator shall be relieved from the duties and obligations of Unit Operator for a period of six months after it has served notice of intention to resign on all owners of working interests subject hereto and the Director, Superintendent, Indian Commissioner, and State Commissioner unless a new Unit Operator shall have been selected and approved and shall have assumed the duties and obligations of Unit Operator prior to the expiration of said six-month period. Unless a successor operator is selected and approved, and assumes the duties and obligations of operator prior to the effective date of the retiring operator's relinquishment of duties, the retiring operator must place all wells drilled hereunder in a satisfactory condition for suspension or abandonment as may be required by the Supervisor and the State Commissioner under applicable Federal and State oil and gas operating regulations.

Unit Operator shall have the right to resign while a participating area established hereunder is in existence but such resignation shall not become effective unless and until a successor unit operator has been selected and approved and has agreed to accept the duties and responsibilities of Unit Operator effective upon the termination of such duties and responsibilities of the retiring Unit Operator. The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

Upon default or failure in the performance of its duties or obligations

under this agreement, the Unit Operator may be removed by a majority vote of owners of working interests determined in like manner as herein provided for the selection of a successor Unit Operator. Prior to the effective date of relinquishment by, or within six months after removal of Unit Operator, the duly qualified successor Unit Operator shall have an option to purchase on reasonable terms all or any part of the equipment, material, and appurtenances in or upon the land subject to this agreement, owned by the retiring Unit Operator and used in its capacity as such Operator, or if no qualified successor operator has been designated, the working interest owners may purchase such equipment, material, and appurtenances. At any time within the next ensuing three months any equipment, material, and appurtenances not purchased and not necessary for the preservation of wells may be removed by the retiring Unit Operator, but if not removed shall become the joint property of the owners of unitized working interests in the participating area or, if no participating area has been established, in the entire unit area. The termination of the rights as Unit Operator under this agreement shall not terminate the right, title, or interest of such Unit Operator in its separate capacity as owner of interests in unitized substances.

5. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall relinquish the right as Unit Operator or shall be removed, the owners of the unitized working interests in the participating area on an acreage basis, or in the unit area on an acreage basis until a participating area shall have been established, shall select a new Unit Operator. A majority vote of the working interests qualified to vote shall be required to select a new Unit Operator; provided, that if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of at least one additional working interest owner shall be required to select a new Unit Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and State Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and State Commissioner at their election may declare this unit agreement terminated.

6. UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interests, all costs and expenses incurred in conducting unit operations hereunder and the working interest benefits accruing hereunder shall be apportioned among the owners of unitized working interests in accordance with a unit operating

agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section shall be filed with the Supervisor.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Each working interest owner shall take in kind, or market individually or through an agent, its respective portion of the unitized substances and acting individually or through an agent shall pay all royalty, overriding royalty or other payments to which the portion of such working interest owner is subject. The right is hereby secured to the United States and the State of New Mexico under existing or future laws and regulations to elect to take its respective royalty shares in kind or value. 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 such capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

The Unit Operator shall pay all costs and expenses of operation with respect to the unitized land; and no charge therefor shall be made against the royalty owners. If and when the Unit Operator is not the sole owner of all working interests, such costs shall be charged to the account of the owners of working interests, and the Unit Operator shall be reimbursed therefor by such owners and shall account to the working interest owners for their respective

shares of the production and benefits derived from operations hereunder, all in the manner and to the extent provided in the unit operating agreement. If the Unit Operator is the sole working interest owner, he shall bear all such costs and expenses. The Unit Operator shall render each month to the owners of unitized interests entitled thereto an accounting of the operations on unitized land during the previous calendar month, and shall pay in value or deliver in kind to each party entitled thereto a proportionate and allocated share of the benefits accruing hereunder in conformity with operating agreements, leases, or other independent contracts between the Unit Operator and the parties hereto either collectively or individually.

The development and operation of land subject to this agreement under the terms hereof shall be deemed full performance by the Unit Operator of all obligations for such development and operation with respect to each and every part or separately owned tract of land subject to this agreement, regardless of whether there is any development of any particular part or 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 any of them.

8. DRILLING TO DISCOVERY: Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location to be approved by the Supervisor if such location is upon Indian or Federal lands, and if upon State lands or patented lands, such location shall be approved by the Oil Conservation Commission of the State of New Mexico, hereinafter referred to as the Commission, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently to a depth of 6500 feet unless at a lesser depth unitized substances shall be discovered which can be produced in paying quantities or unless at a lesser depth the Dakota formation has been adequately tested or the Unit Operator shall at any time establish to the satisfaction of the Supervisor as to wells on Indian or Federal land, or the Commission as to wells on State land or patented land, that further drilling of said well would not be warranted or practicable. Nevertheless, completion of a well in paying quantities, prior to testing the Dakota or reaching 6500 feet in depth, shall not relieve the Unit Operator from the obligation to commence such a Dakota test well within one year thereafter. If the first or any subsequent test well fails to result in the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more

than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if on Indian or Federal land or the State Commissioner if on State land or patented land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign, as provided in Section 4 hereof, after any well drilled under this section is placed in a satisfactory condition for suspension or is plugged and abandoned pursuant to applicable regulations.

Upon application, the Director and the State Commissioner may modify the drilling requirements of this section and grant reasonable extensions of time when in their opinion, such actions are warranted. Upon failure to comply with the drilling provisions of this section, the Director and State Commissioner may, after reasonable notice to the Unit Operator and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

9. PLAN OF FURTHER DEVELOPMENT AND OPERATION: Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, the State Commissioner, and the Commission an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the State Commissioner, and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein subject to the Dakota test well provisions of Section 8. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor, the State Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section, subject to the Dakota test well provisions of Section 8, shall provide for exploration of the unitized area and for the determination of the commercially productive area thereof in each and every productive formation and shall be as complete and adequate as the Supervisor, the State Commissioner, and the Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable

for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the State Commissioner, and the Commission. Said plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and State Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing oil and gas in paying quantities, subject to the Dakota test well provisions of Section 8, no further wells except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and the State Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well pursuant to the provisions of Section 8 hereof capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor or the State Commissioner, the Unit Operator shall submit for approval by the Director, the Commissioner, and the Commission a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all land in said schedule on approval of the Director, the State Commissioner, and Commission to constitute a participating area, effective as of the date of first production. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise, to include additional land then regarded as reasonably proved to be productivein paying quantities, and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month following the date of first authentic knowledge or

information on which such revision is predicated, unless a more appropriate effective date is specified in the schedule. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive apportionment of any sums accrued or paid for production obtained prior to the effective date of revision of the participating area.

In the absence of Agreement at any time between the Unit Operator and the Director, the State Commissioner, and Commission as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the Indians, the United States, and the State of New Mexico which shall be determined by the Supervisor and the State Commissioner and the amount thereof deposited as directed by the Supervisor as to Indian and Federal lands and deposited with the Commissioner of Public Lands as to State lands to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Indian, Federal, and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells on Indian and Federal land, the State Commissioner as to wells on State land, and the Commission as to patented land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall be allocated to the land on which the well is located so long as that well is not within a participating area established for the pool or deposit from which such production is obtained.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each participating area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits that accrue on an acreage basis,

each such tract shall have allocated to it such percentage of said production as its area bears to the said participating area. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area.

12. DEVELOPMENT OR OPERATION ON NON-PARTICIPATING LAND OR FORMATIONS: Any party or parties hereto, other than the Unit Operator, owning or controlling a majority of the working interests in any unitized land not included in a participating area and having thereon a regular well location in accordance with a well-spacing pattern established under an approved plan of development and operation, with appropriate approval, may drill a well at such location at such party's sole risk, cost, and expense to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party or parties of intention to drill the well the Unit Operator elects and commences to drill such well in like manner as other wells are drilled by the Unit Operator under this agreement.

If such well, by whomsoever drilled, results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement, and the well shall thereafter be operated by the Unit Operator pursuant to the terms of this agreement as other wells within participating areas, and there shall be a financial adjustment between the parties who financed the well and the working interest owners in the participating area concerning their respective drilling and other investment cost, all as provided in the unit operating agreement.

If any well, by whomsoever drilled, as provided in this section, obtains production insufficient to justify inclusion of the land on which said well is situated in a participating area, such well may be operated and produced by the party drilling the well. If the drilling of such well was financed by parties other than the working interest owners on the well tract, details of financial arrangements and operations as between such parties shall be provided for in the unit operating agreement.

Wells drilled or produced at the sole expense and for the sole benefit of an owner of working interest other than the Unit Operator shall be operated and produced pursuant to the conservation requirements of this agreement. Royalties

in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

13. ROYALTIES AND RENTALS: Royalty on each unitized tract shall be paid or delivered by the parties obligated therefor as provided by existing leases, contracts, laws, and regulations at the lease or contract rate upon the unitized substances allocated to the tract. Nothing herein contained shall operate to relieve the lessees of Indian, Federal, or State lands from their obligations under the terms of their respective leases to pay rentals and royalties.

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

Unitized substances produced from any participating area and used therein in conformance with good operating practice for drilling, operating, camp, or other production or development purposes or under an approved plan of operation for repressuring or cycling said participating area, or for development outside of such participating area if for the purposes of drilling exploratory wells or for camps or other purposes benefiting the unit as a whole, shall be free from any royalty or other charge except as to any products extracted from unitized substances so used. If Unit Operator introduces gas for which royalties have been paid into any participating area hereunder from sources other than such participating area for use in repressuring, stimulation of production, or increasing ultimate production in conformity with a plan first approved by the Supervisor, a like amount of gas may be sold without payment of royalty as to dry gas but not as to the products extracted therefrom; provided, that gas so introduced shall bear a proportionate and equitable share of plant fuel consumption and shrinkage in the total volume of gas processed from such participating area; and provided further, that such withdrawal shall be at such time as may be provided in the plan of operation or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practice; provided, however, that said right of withdrawal royalty free shall terminate upon termination of the unit agreement.

Each working interest owner and lessee presently responsible for the payment of rentals, or his successor in interest, shall be responsible for and shall pay all rentals of whatsoever kind on his respective lease. Rental or minimum royalty for Indian and Federal land of the United States subject to this agreement shall be paid at the rate specified in the respective Indian and Federal leases or such rental or minimum royalty as to Federal land is waived, suspended, or reduced by law or by approval by the Secretary of the Interior, hereinafter referred to as "Secretary". Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases, or may be reduced and suspended upon the order of the Commissioner of Public Lands of the State of New Mexico pursuant to applicable laws and regulations.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances, to the end that the maximum efficient yield may be obtained without waste, as defined by or pursuant to State or Federal law or regulation; and production of unitized substances shall be limited to such production as can be put to beneficial use with adequate realization of fuel and other values.

15. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor for Indian and Federal land or as approved by the State Commissioner as to State land. Unit Operator shall be reimbursed for the cost thereof by the working interest owners in the manner provided in the unit operating agreement.

16. LEASES AND CONTRACTS CONFORMED TO AGREEMENT: The parties hereto holding interests in leases embracing unitized Indian, Federal, or State land consent that the Secretary and the State Commissioner, respectively, may and said Secretary, or his duly authorized representative, and State Commissioner by their approval of this agreement do, establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of such leases and the regulations in respect thereto, to conform said requirements to the provisions of this agreement, but otherwise the terms and conditions of said leases shall remain in full force and effect.

Said parties further consent and agree, and the Secretary or his duly authorized representative, and the State Commissioner by their respective approvals

hereof determine, that during the effective life of this agreement, drilling and producing operations performed by the Unit Operator upon any unitized land will be accepted and deemed to be operations under and for the benefit of all unitized leases embracing Indian, Federal and State land; that no such lease shall be deemed to expire by reason of failure to produce wells situated on land therein embraced; and that all leases or other contracts concerning such land, except as otherwise provided herein, shall be modified to conform to the provisions of this agreement and shall be continued in force and effect beyond their respective terms during the life of this agreement. Any Federal lease for a term of 20 years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force until the termination hereof. Any other Federal lease committed hereto shall continue in force as to the committed land so long as the lease remains committed hereto, provided a valuable deposit of unitized substances is discovered prior to the expiration date of the primary term of such lease. Authorized suspension of all operations and production on the unitized land shall be deemed to constitute authorized suspension with respect to each unitized lease.

The parties hereto holding interests in privately owned land within the unit area consent and agree, to the extent of their respective interests, that each such lease may be continued in effect beyond the primary term of such lease and during the term of this agreement, provided however that until some portion of the land in a privately owned lease is included in a participating area said lease may be kept in force only by the payment of the delay rentals in the time, manner and amount provided by said lease. Except as in this section otherwise provided, all leases or other contracts concerning such land shall be modified to conform to the provisions of this agreement and shall be continued in force and effect during the life of this agreement; that drilling and producing operations conducted on any tract of land committed to this agreement will be accepted and deemed to be performed on and for the benefit of each and every tract of such privately owned land committed hereto; that no lease affecting said privately owned land shall be deemed to expire by reason of failure to drill or to produce wells situated on such lands; and that authorized suspension of all operations and production on unitized land shall be deemed to constitute authorized suspension with respect to all unitized leases affecting privately owned lands.

17. SPECIAL INDIAN LAND PROVISIONS: Notwithstanding any other provisions, including but not limited to Sections 13 and 16 of this unit agreement, it is

expressly understood and agreed that any Indian land lease having a portion of its area within and a portion outside the unit area shall be segregated as to such portion for all intents and purposes as fully and effectively as if they had been issued as separate leases.

18. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or 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, royalty, or other interest shall be binding on the Unit Operator until the first day of the next calendar month after the Unit Operator is furnished with the original or photostatic or certified copy of the instrument of transfer.

19. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the State Commissioner and the Director and shall have a term of 5 years commencing as of said effective date, unless (a) the date of expiration is extended by the Director and the State Commissioner, or (b) it is reasonably determined prior to the expiration of the fixed term of any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director and the State Commissioner, or (c) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof, in which case the agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities; or (d) it is terminated as provided in Sections 5 and 8 hereof.

This agreement may be terminated at any time by not less than 75 percentum, on an acreage basis, of the owners of working interest signatory hereto with the approval of the Director and the State Commissioner.

20. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director 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 Commission 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 State Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

21. CONFLICT OF SUPERVISION: Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination, or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability for delay or failure in whole or in part to comply therewith to the extent that the said Unit Operator, working interest owners or any of them are hindered, delayed, or prevented from complying therewith by reason of failure of the Unit Operator to obtain with the exercise of due diligence the concurrence of the representatives of the United States and the representatives of the State of New Mexico in and about any matters or thing concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this contract are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

22. UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, 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, lockouts, acts of God, Federal, State, or municipal laws or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

24. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director and the Unit Operator prior to the approval of this agreement by the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement and, if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the Unit Operating Agreement. After final approval hereof, joinder to this agreement by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Prior to final approval hereof, joinder by any owner of non-working interest must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto. A subsequent joinder shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director.

25. COUNTERPARTS: This agreement may be executed in any number of counterparts no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

26. FAIR EMPLOYMENT: The Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and an identical provision shall be incorporated in all subcontracts.

27. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join this unit agreement, so that such tract is not committed to this unit agreement, there shall be such readjustment of participation as may be required on account of such failure of title. In the event of a dispute as to title or as to any interest in unitized land, the Unit Operator may withhold payment or delivery on account thereof without liability for interest until the dispute is finally settled; provided, that as to Federal and State land 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 Supervisor and the Comissioner of Public Lands of the State of New Mexico, respectively, 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.

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

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

WITNESS: DATE:

_____ _____

Address: 316 Petroleum Building
Oklahoma City, Oklahoma

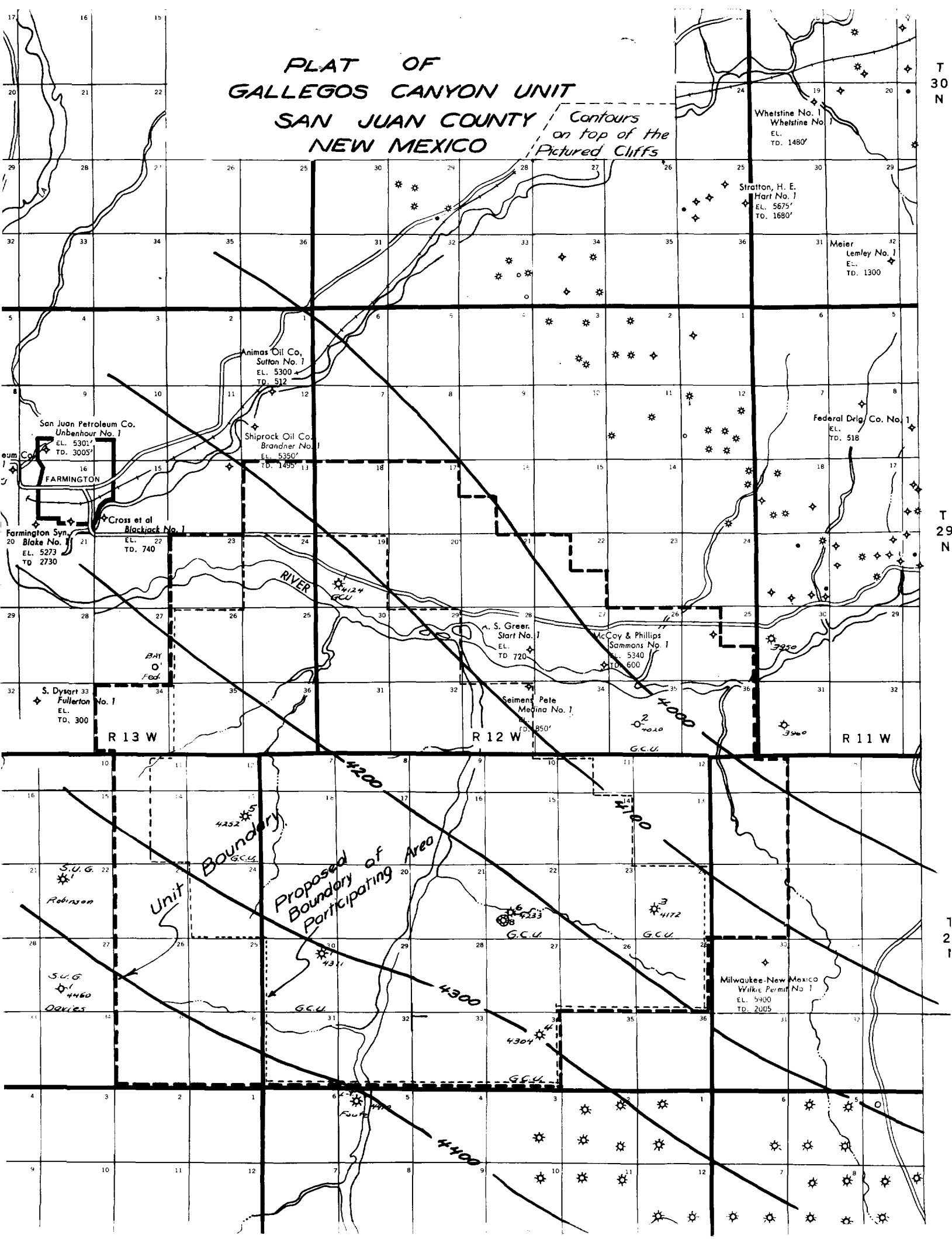
UNIT OPERATOR AND WORKING INTEREST OWNER

By Earl A. Benson

By _____

By _____

By _____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EL. 5340
TD 600
3950
BAY
O'
Fed.
S. Dysart
Fullerton No. 1
EL.
TD. 300
Seimens Pete
Medina No. 1
EL.
TD. 850'
4000
4010
3960
4200
4100
4252
Unit Boundary
G.C.U.
Proposed Boundary of Participating Area
S.U.G.
Robinson
4233
4172
G.C.U.
G.C.U.
S.U.G.
4460
Davies
4311
G.C.U.
4300
4304
G.C.U.
Milwaukee-New Mexico
Wilke Permit No. 1
EL. 5900
TD. 2005
4400