

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS
IN ALL LAND IN THE NORTHEAST HOGBACK UNIT AGREEMENT,
SAN JUAN COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. AND DATE OF LEASE	LAND OWNERS AND PERCENTAGE OF ROYALTY	RECORD OWNER OF LEASE OR APPLICANT	NAME OF OTHER AND PERCENTAGE OF OVERRIDING ROYALTY	WORKING INTEREST OWNER AND PERCENTAGE
1	T-30N, R-16W Sec. 24: S/2 NE/4, SE/4 Sec. 25: E/2	560.00	NM-0269 10-1-51	USA 12 $\frac{1}{2}$ % (ALL)	Pan American Petroleum Corporation	Jean S. Brady and Stuart F. Brady, her husband..... 1% Edna Tone Hall and Ora R. Hall, Jr., her husband..... 1%	Pan American
2	T-30N, R-16W Sec. 27: NW/4	160.00	NM-01019 12-1-51	USA 12 $\frac{1}{2}$ % (ALL)	Pan American Petroleum Corporation	H. O. Pool and Thelma K. Pool, his wife, Production payment of \$1,000.00 per acre payable out of 1/16 of 7/8	Pan American
3	T-30N, R-16W Sec. 26: All Sec. 27: E/2, SW/4 Sec. 34: All Sec. 35: NE/4 NE/4, W/2 NE/4, NW/4, N/2 SW/4, SW/4 SW/4	2160.00	NM-01019-A 12-1-51	USA 12 $\frac{1}{2}$ % (ALL)	Pan American Petroleum Corporation	H. O. Pool and Thelma K. Pool, his wife..... 5%	Pan American
4	T-30N, R-16W Sec. 33: Lots 1, 2, E/2 NW/4, NE/4	278.70	NM-03331 5-1-52	USA 12 $\frac{1}{2}$ % (ALL)	R. W. Bolack	None	R. W. Bolack

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. AND DATE OF LEASE	LAND OWNERS AND PERCENTAGE OF ROYALTY	RECORD OWNER OF LEASE OR APPLICATION	NAME OF OWNER AND PERCENTAGE OF OVERRIDING ROYALTY	WORKING INTEREST OTHER AND PERCENTAGE
5	T-30M, R-16M Sec. 33: Lots 3, 4, 5, 6, 7, NE/4 SW/4, N/2 SE/4	277.60	NM-03331-A 5-1-52	USA 12 $\frac{1}{2}$ % (All)	Petro-Atlas, Inc.	None	Petro-Atlas, Inc. All
6	T-30M, R-16M Sec. 14: NW/4	160.00	NM-01407 7-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Joseph W. Aidlin and Mary Aidlin, his wife..... 5%	Pan American All
7	T-30M, R-16M Sec. 14: S/2 Sec. 24: W/2	640.00	NM-01407-A 7-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Joseph W. Aidlin and Mary Aidlin, his wife..... 4 $\frac{1}{2}$ %	Pan American All
8	T-30M, R-16M Sec. 28: Lots 2, 7, 10, 15	162.00	NM-01419 7-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Joseph W. Aidlin and Mary Aidlin, his wife..... 5%	Pan American All
9	T-30M, R-16M Sec. 22: E/2	320.00	NM-01419-A 7-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Joseph W. Aidlin and Mary Aidlin, his wife..... 4 $\frac{1}{2}$ %	Pan American All
10	T-30M, R-16M Sec. 28: Lots 1, 8, 9, 16	161.96	NM-01419-B 7-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Joseph W. Aidlin and Mary Aidlin, his wife..... 5%	Pan American All
11	T-30M, R-16M Sec. 15: Lots 1, 2, 3, 4 E/2 W/2, W/2 E/2, NE/4 SE/4 Sec. 22: NW/4	674.16	NM-01443 1-1-52	USA 12 $\frac{1}{2}$ % (All)	Pan American Petroleum Corporation	Edna J. Hoover..... 1 $\frac{1}{2}$ % D. J. Hoover..... 1/2 of 1 $\frac{1}{2}$ % E. J. Hoover..... 1/2 of 1 $\frac{1}{2}$ % F. W. Hoover..... 1/2 of 1 $\frac{1}{2}$ % Andreas Jansen..... 1 $\frac{1}{2}$ % Anna J. Voss..... 5/8 of 1 $\frac{1}{2}$ % William R. Voss... 5/8 of 1 $\frac{1}{2}$ %	Pan American All

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. AND DATE OF LEASE	LAND OWNERS AND PERCENTAGE OF ROYALTY	RECORD OWNER OF LEASE OR APPLICATION	NAME OF OWNER AND PERCENTAGE OF OVERRIDING ROYALTY	WORKING INTEREST OWNER AND PERCENTAGE
12	T-30N, R-16W Sec. 28: Lots 3, 4, 5, 6, 11, 12, 13, 14	235.18	NM-04443-A 1-1-52	USA 12 $\frac{1}{2}$ % (A11)	John N. Eddy... 1/2 Charles B. Gonsales..... 1/2	Edna J. Hoover, Executrix of Estate of O. J. Hoover, Deceased..... 2 $\frac{1}{2}$ % Anna J. Voss..... 5/8 of 1% William R. Voss.... 5/8 of 1%	John N. Eddy.... 50% Charles B. Gonsales..... 50%
13	T-30N, R-16W Sec. 23: A11 Sec. 24: N/2 NE/4 Sec. 25: W/2	1040.00	NM-04443-B 1-1-52	USA 12 $\frac{1}{2}$ % (A11)	Pan American Petroleum Corporation	Edna J. Hoover..... 1% D. J. Hoover..... 1/2 of 1% E. J. Hoover..... 1/2 of 1% F. W. Hoover..... 1/2 of 1% Andreas Jansen..... 1 $\frac{1}{2}$ % Anna J. Voss..... 5/8 of 1% William R. Voss.... 5/8 of 1%	Pan American A11
14	T-30N, R-16W Sec. 15: SE/4 SE/4 Sec. 22: SW/4	200.00	NM-04443-C 1-1-52	USA 12 $\frac{1}{2}$ % (A11)	Pan American Petroleum Corporation	Edna J. Hoover..... 1% D. J. Hoover..... 1/2 of 1% E. J. Hoover..... 1/2 of 1% F. W. Hoover..... 1/2 of 1% Andreas Jansen..... 1 $\frac{1}{2}$ % Anna J. Voss..... 5/8 of 1% William R. Voss.... 5/8 of 1%	Pan American A11
15	T-30N, R-16W Sec. 14: W/2 NE/4	80.00	NM-04444 4-1-52	USA 12 $\frac{1}{2}$ % (A11)	J. R. Abraham	R. P. Mohrbacker and Cavita D. Mohrbacker..... 3%	J. R. Abraham A11
16	T-30N, R-16W Sec. 13: S/2 SW/4	80.00	NM-05859 8-1-51	USA 12 $\frac{1}{2}$ % (A11)	Pan American Petroleum Corporation	R. P. Mohrbacker and Cavita D. Mohrbacker, his wife, as joint tenants..... 1% Berry Merritt and wife, Jean Merritt, as joint tenants..... 1% L. W. Swarts and Hazel Swarts, his wife..... 1%	Pan American A11

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17	T-30N, R-16W Sec. 15: E/2 NE/4	80.00	NM-06686 3-1-55	USA 12½% (A11)	Pan American Petroleum Corporation	J. V. Fritts and Ruth C. Fritts, his wife..... 2½% A. L. Duff, Jr. 2½%	Pan American A11
18	T-30N, R-16W Sec. 12: N/2, N/2 S/2	480.00	SF-081298 10-1-51	USA 12½% (A11)	El Paso Natural Gas Products Company	Darrell C. Williams.... 4%	Colorado Oil & Gas Corporation..50 El Paso Natural Gas Products Company.....50
19	T-30N, R-16W Sec. 13: S/2 NE/4, N/2 SE/4	160.00	SF-081298-A 10-1-51	USA 12½% (A11)	Pan American Petroleum Corporation	J. Felix Hickman..... 1½% Floyd H. Schroeder..... 1% Helbing and Podpechan. 2½%	Pan American A11
20	T-30N, R-16W Sec. 11: E/2. Sec. 12: S/2 S/2	480.00	SF-081299 10-1-51	USA 12½% (A11)	El Paso Natural Gas Products Company	Joe V. Lommori and Darrell C. Williams.... 4%	Colorado Oil & Gas Corporation..50 El Paso Natural Gas Products Company.....50
21	T-30N, R-16W Sec. 13: N/2 NE/4, S/2 SE/4, NW/4, N/2 SW/4 Sec. 14: E/2 NE/4	480.00	SF-081299-A 10-1-51	USA 12½% (A11)	Pan American Petroleum Corporation	As to the N/2 NE/4, NW/4, N/2 SW/4 Sec. 13 and E/2 NE/4 Sec. 14, T-30N, R-16W: Joe J. Lommori..... 1½% Thelma Bachechi..... 1½% Darrell C. Williams and Elizabeth M. Williams, his wife..... 2½% As to the S/2 SE/4 Sec. 13, T-30N, R-16W: Joe J. Lommori..... 1½% Thelma Bachechi..... 1½% Horace F. McKay, Jr. . 2½%	Pan American A11

21 Federal Tracts 3,869.60 acres or 83.90% of Unit Area.

TRACT NO.	DESCRIPTION	NO. OF ACRES	SERIAL NO. AND DATE OF LEASE	LAID OWNERS AND PERCENTAGE OF ROYALTY	RECORD OWNER OF LEASE OR APPLICANT	NAME OF OWNER AND PERCENTAGE OF OVERRIDING ROYALTY	WORKING INTEREST OWNER AND PERCENTAGE
22	T-30N, R-16W Sec. 16: NW/4 SE/4 Sec. 36: SE/4 NE/4	80.00	E-3150-1 12-10-49	State of New Mexico 12 2/3% (All)	El Paso Natural Gas Company	John Burroughs.....5%	El Paso Natural Gas Company All
23	T-30N, R-16W Sec. 30: NW/4, NE/4, SW/4 NE/4	240.00	E-8343 7-20-54	State of New Mexico 12 2/3% (All)	Pubco Petroleum Corporation	None	Pubco Petroleum Corporation All
24	T-30N, R-16W Sec. 30: NW/4 NE/4	40.00	B-10405-45 6-24-43	State of New Mexico 12 2/3% (All)	Brookhaven Oil Company	None	Brookhaven Oil Company All
25	T-30N, R-16W Sec. 10: E/2 SW/4, S/2 SE/4, NE/4 SE/4	200.00	E-9991 4-17-56	State of New Mexico 12 2/3% (All)	Gulf Oil Corporation	None	Gulf Oil Corporation All
26	T-30N, R-16W Sec. 10: Lots 3, 4	39.08	06-456 12-18-56	State of New Mexico 12 2/3% (All)	Northwest Production Corporation	None	Northwest Production Corporation... 100% W. P. Carr..... 100%

5 State Tracts 599.08 acres or 5.66% of Unit Area.

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34	T-3011, R-161 Sec. 21: Lots 1 through 16, inclusive	543.18	Oil and Gas Leasing Rights unknown until determined by the Department of the Interior.				
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1 Tract, Ownership Undetermined 543.18 acres or 5.14% of Unit Area.

RECAPITULATION

<u>Land</u>	<u>Acres in Unit</u>	<u>Percentage of Unit Area</u>
Federal	8,869.60	83.90
State	599.08	5.66
Patented	560.00	5.30
Undetermined	<u>543.18</u>	<u>5.14</u>
Total Unit Area	10,571.86	100.00

UNIT OPERATING AGREEMENT

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BEFORE EXAMINER
ON COMPLETION OF PROVISION
Pauline EXHIBIT NO. 2
CASE NO. 1769

UNIT OPERATING AGREEMENT
NORTHEAST HOGBACK 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 PAN AMERICAN PETROLEUM CORPORATION, a corporation, hereinafter designated as "Unit Operator", and the undersigned as 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 referred to 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 Northeast Hogback Unit Area, County of San Juan, State of New Mexico, hereinafter referred to as "Unit Agreement"; and

WHEREAS, the parties enter into this agreement pursuant to Section 7 of the Unit Agreement.

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

ARTICLE I

UNIT PLAN CONFIRMED: The aforesaid Unit Agreement and all exhibits attached thereto are hereby confirmed and made a part of this agreement. In the event of any inconsistency or conflict between provisions of this agreement and the Unit Agreement, the Unit Agreement shall prevail.

ARTICLE II

MANAGEMENT OF UNIT

2.1 UNIT OPERATOR AND EMPLOYEES: Pan American Petroleum Corporation, the party hereto named as Unit Operator of the Unit Area under the provisions of the Unit Agreement, or its 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. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation, and all other matters relating to their employment shall be determined solely by Unit Operator.

2.2. UNIT OPERATOR -- DUTIES: Unit Operator shall in the conduct of operations hereunder:

(a) Conduct the operations in a good and workmanlike manner, and in the exercise of its judgment and discretion, acting in good faith;

(b) Consult with Working Interest Owners concerning unit operations, and keep Working Interest Owners informed 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 full and accurate records of all costs incurred, unitized substances produced, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the Working Interest Owners at reasonable intervals during usual business hours, at the Office of Unit Operator.

(d) Permit each of the Working Interest Owners, through its duly authorized representatives to have access to the Unit Area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area;

(e) Furnish to each of the other parties who makes timely written request therefor, copies of Unit Operator's authorizations for expenditures or itemizations thereof in excess of One Thousand Dollars (\$1,000), and copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports, and run tickets, and reports of stock on hand at the first of each month, if available, samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(f) Comply with the terms and conditions of the Unit Agreement and all valid applicable Federal and State Laws and Regulations;

(g) Keep the land in the Unit Area free from liens and encumbrances occasioned by its operations, except such liens as the Working Interest Owners elect to contest, and save only the lien granted the Unit Operator under this agreement.

2.3 UNIT OPERATOR--RESTRICTIONS: The Unit Operator shall not do any of the following things without the consent of the Working Interest Owners obtained as herein

provided:

(a) Locate, drill, deepen, or plug back any well or let any contract therefor. The approval of the drilling, deepening, or plugging back of any well shall be construed to mean and include the approval of any necessary expenditures for the drilling, deepening, or plugging back, and 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 Article IV hereof;

(b) Make any expenditures in excess of Fifteen Thousand Dollars (\$15,000) other than normal operating expenses;

(c) Use any facilities owned by one participating area for purposes of operation and development outside of said area, or 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, in excess of One Thousand Dollars (\$1,000) rendered by Unit Operator's technical staff, not contemplated by the provisions of Exhibit "1" attached hereto, and not covered by the overhead, district, and camp expenses therein authorized, which overhead in Exhibit "1" is intended to cover only normal development and operations.

(e) Make any partial relinquishment of the rights of the 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 One Thousand Dollars (\$1,000) or more (any such item or items of less cost may be disposed of without such approval), except as otherwise provided in Section 4.6 hereof.

(g) Propose any plan for development of the Unit Area or any participating area or amendment thereof, or any expansion or contraction of the Unit Area or any designation or enlargement of a participating area; provided, if such consent cannot be obtained, he shall propose that plan or area having the approval of the largest plurality.

(h) Drill or abandon any injection wells or convert any well into an injection well.

(i) Determine whether to drill a demanded offset well or pay compensatory royalty.

(j) Determine the basis of investment adjustment and the adjusted basis

of prorated future development and operating costs and readjustment percentages of participation on enlargement or reduction of Unit Area or enlargement of any participating area or on elimination of acreage for failure of title.

(k) Make any arrangements for repressuring, cycling, or pressure maintenance, or approve or disapprove any change in the existing method of operation.

(l) Contest any encumbrance or lien.

In case of blow-out, explosion, fire, flood, or other sudden emergency, Unit Operator may take such steps, and incur such expense, as in its 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 the action taken.

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.

2.4 CONSENT OF WORKING INTEREST OWNERS: On matters on which the consent of Working Interest Owners is required, each Working Interest Owner shall have a vote equal to the proportionate or fractional acreage interest owned by him in the participating area or on any separately operated lease involved in any determination to be made, or in the Unit Area where the determination concerns any matter affecting the Unit Area as a whole. Designation of a participating area shall be by vote of all Working Interest Owners in the Unit Area. Enlargement of a participating area shall be by vote of the Working Interest Owners in the area before enlargement and those on the lease embracing the extension well causing the enlargement. Any party hereto not satisfied by any such decision may object to the Supervisor and may renew his objection to the Director. Except as otherwise specified herein or in the Unit Agreement, an affirmative vote of 75% of the voting power of the Working Interest Owners, on any matters on which they are authorized to act, shall constitute the decision of the Working Interest Owners, which decision shall be binding upon all; provided, however, that should any Working Interest Owner own as much as 75%, but less than 100%, voting interest in the Unit Area or in a participating area, as the case may be, his vote must be supported by the affirmative vote of at least one additional Working Interest Owner to bind all the parties hereto, and provided further that if one party

owns 35% or more voting interest, but less than 50%, the vote of such party shall not serve to defeat or disapprove any matter approved by the majority (over 50%) unless supported by at least one additional voting interest.

The Working Interest Owners shall meet in regular or special meetings for the purpose of discussing unit business and of voting on the matters set out in Section 2.3 hereof, and of exercising any other powers by this agreement or by the Unit Agreement committed to the Working Interest Owners. Each Working Interest Owner shall designate a representative and an alternate to represent him at such meeting, who shall have such powers as are conferred on him by his principal, which powers shall be sufficiently broad to enable the representative to vote on matters coming before said meeting. Notices of meetings and other notices shall be served on such representative by the Unit Operator. The representative of the Unit Operator shall act as Chairman at all meetings. Each Working Interest Owner shall have the right from time to time, on notice to the Unit Operator, to change its representative or the alternate. It shall be competent for the Working Interest Owners to provide by rule or regulation for the polling of the Working Interest Owners by the Unit Operator on urgent matters without calling a meeting, and any vote so taken pursuant to such rule or regulation shall be as binding on the Working Interest Owners as if done at a regular meeting at which a quorum was present.

2.5 UNIT OPERATOR--LIABILITIES: Unit Operator shall not be liable to any of the Working Interest Owners for anything done or omitted to be done by it in the conduct of operations hereunder in compliance with Section 2.2(a) hereof.

2.6 UNAVOIDABLE DELAY: The obligations of Unit Operator shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes, or other differences with workmen, acts of civil or military authorities, acts of the public enemy, acts of God, restrictions or restraints imposed by law or by regulation or order of Governmental authority, whether Federal, State, or local, inability to obtain necessary rights of access, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market, or other matters beyond the reasonable control of the Unit Operator, whether or not similar to any cause above enumerated.

ARTICLE III

COST OF OPERATIONS

3.1 HOW KEPT: 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 to each tract in the same ratio as that defined in the Unit Agreement for the allocation of production in that area, and among the Working Interest Owners in each tract in proportion to their comparative interests therein, and as so allocated shall be paid as hereinafter provided by the several Working Interest Owners, and as nearly as may be done all costs shall be charged directly to each participating area and the operations served. The cost of other separate operations shall likewise be separately kept, and charged to the Working Interest Owners affected. All materials, equipment, and other property, whether real or personal, charged as a part of cost of operations hereunder shall be owned by the Working Interest Owners in the same proportion as they were charged therefor. All such costs, expenses, credits, and related matters and the method of handling the accounting with respect thereto shall be in accordance with the provisions of the Accounting Procedure attached hereto, made a part hereof, and marked for identification as Exhibit "1". In the event of any inconsistency or conflict between provisions of this agreement and Exhibit "1", this agreement shall prevail.

3.2 OPERATOR'S LIEN: Unit Operator is hereby granted a prior lien on the rights and interests 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 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 on the respective interests of such Working Interest Owner. In lieu of or in addition to such remedy, the parties hereto agree that in the event of default, the Unit Operator may notify the purchaser of the defaulting party's share of the unitized substances and thereupon the purchaser shall pay to the Unit Operator the proceeds of the sale of defaulting party's share of unitized substances until said obligation is extinguished without any liability to the defaulting party. In lieu of or in addition to the remedy above specified for such default, Unit Operator may have any other remedy afforded by law or equity against the defaulting party for such default.

3.3 ADVANCES: Unit Operator, at its election, may require 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. Adjustment 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.

3.4 WORKING INTEREST OWNERS' TAXES: The Unit Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. The Unit Operator shall bill each Working Interest Owner for its proportionate share of such tax payments as provided by the Accounting Procedure, being said Exhibit "1".

Each Working Interest Owner shall reimburse the Unit Operator for (a) the percentage of the ad valorem taxes on personal property which is equal to such Working Interest Owner's percentage of participation in production, and (b) the ad valorem taxes levied on such Working Interest Owner's leasehold interest or interests covered by this Agreement; provided, however, that a Working Interest Owner owning less than the entire seven-eighths (7/8) leasehold interest or interests covered by this Agreement shall reimburse the Unit Operator for its proportion of the ad valorem taxes levied on the full leasehold interest, adjusted so as to reflect a credit for payments based upon values assigned to and made on behalf of outstanding excess royalties, overriding royalties, and production payments.

In the event that any taxable valuation is assessed upon or against said property or any portion thereof, which the Unit Operator deems to be unreasonable, it shall be the duty of the Unit Operator to protest said taxable valuation within the time and manner as prescribed by law and to prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final

determination. When any such protested valuation of such property shall have been determined, the Unit Operator shall pay for the joint account the taxes thereon, together with any interest or penalty accrued by reason of such protest, and shall bill each Working Interest Owner for its proportionate share of such payments in accordance with the accounting procedure, being said Exhibit "1".

3.5 INSURANCE: Insurance shall be carried by the Unit Operator and its contractors or Sub-Contractors as provided in Exhibit "2" attached hereto.

ARTICLE IV

WELLS

4.1 GENERAL PROVISIONS:

(a) All wells subject to this agreement shall be drilled and operated by the Unit Operator for the account of the affected Working Interest Owners.

(b) All wells shall be drilled on a competitive contract basis at the usual rates prevailing in the region of the unit area, provided, however, Unit Operator may employ its own tools and equipment in the drilling of such wells, but in such event the charges therefor shall not exceed the competitive prevailing rate charged by independent contractors doing work of a similar nature.

(c) "Well costs" (referred to in this Article IV) shall be all those costs necessary to drill, complete and equip any well, including necessary lines, separators and tankage if a producer, and if a dry hole the plugging and abandonment thereof, and such costs shall be authorized and paid for by the Working Interest Owners affected in proportion to their interests as applicable to the specific well categories enumerated in the succeeding provisions of this Article IV.

4.2 TEST WELLS:

(a) A "test well" is any well drilled to a formation before the establishment of a participating area for that formation.

(b) Well costs of the test wells provided for in Section 9 of the Unit Agreement shall be paid by all the working interest owners in proportion to their interest in the unit area. Said test wells shall be located at points designated by Unit Operator or at such other locations as may be approved by the Department of Interior.

(c) Well costs of any test well drilled subsequent to the test wells

provided for in Section 9 of the Unit Agreement and subparagraph (b) of this Section 4.2, shall be paid by the Working Interest Owners or any consenting majority thereof on their lease as provided in Section 13 of the Unit Agreement or by other Working Interest Owners as they may decide by separate agreement.

4.3 PARTICIPATING AREA WELLS:

(a) A "participating area well" is any well drilled within the surface boundaries of an established participating area to the formation for which the participating area was established.

(b) Well costs of such wells will be paid by all Working Interest Owners in the participating area as provided in Section 3.1 and upon consent of said owners as provided in Section 2.4.

4.4 EXTENSION WELLS:

(a) An "extension well" is any well drilled to the formation for which a participating area or areas have been established but which well location is outside the surface boundaries of said participating area.

(b) Well costs of such wells shall be paid as follows:

(1) By the Working Interest Owners in the participating area established for the objective formation, the boundary of which is closest to the well site, upon obtaining consent therefor in accordance with Section 2.4 provided, however, any such owner who did not vote in favor of drilling the well may be relieved of the obligation to pay his proportionate share thereof by notifying the Unit Operator in writing to that effect within thirty (30) days after the date of the decision of the other participating area Working Interest Owners to drill the well, or

(2) By the Working Interest Owners or any consenting majority thereof on their own lease as provided in Section 13 of the Unit Agreement, provided they give ninety (90) days' written notice to the Working Interest Owners in the participating area established for the formation to which the well is to be drilled or, if there is more than one participating area established for the formation, to the participating area that has a boundary line nearest the well location. During said ninety (90) days the Working Interest Owners in the participating area may elect to pay for the well costs as in (b) (1) above, but if said Working Interest Owners, voting in accordance with the provisions of Section 2.4, elect not to pay for the well, then the well costs shall be paid by the Working Interest Owners on the said lease

who have elected to drill it.

4.5 FORCED WELLS:

(a) A forced well is any well required by the Department of the Interior whether required independently of any plan of development or as a substitution therefor or an addition thereto. Any one or more of the Working Interest Owners herein may elect to pay for the cost of a forced well, proportionately according to their comparative acreage interests in the Unit Area, or as they may otherwise agree. If no Working Interest Owner is willing to pay for said well, the parties may determine by vote under Section 2.4 hereof, on payment of compensatory royalty, contraction of the unit area, dissolution of the agreement, or any other measure satisfactory to the Department of the Interior, whereby the obligation to drill the well may be avoided. If no such measure can be agreed upon as above and, if the demanded well is a test well, it shall be drilled at the cost of all the parties hereto proportionate to their respective interests, but if the well is not a test well, it shall be drilled at the cost of all the Working Interest Owners having interests in the participating area or areas established for the objective formation to which the well is to be drilled.

4.6 DEEPENING, PLUGGING BACK AND ABANDONING WELLS:

(a) Any well which upon completion in its objective formation is either a dry hole or produces unitized substances in less than paying quantities, or any formerly producing well which ceases to produce in quantities sufficient to justify continued operation in the formation in which it is then completed, may be deepened or plugged back to another formation, or plugged and abandoned, as provided in this Section 4.6.

(b) Any one or more of those Working Interest Owners (hereinafter called well owners) who have borne the well costs theretofore incurred in a well incapable of producing in paying quantities may elect to deepen or plug back the well at its or their expense provided, however, no well shall be deepened or plugged back to the formation covered by an established participating area except with the consent of the Working Interest Owners in such area as determined under the provision of Section 2.4. If less than all of the well owners wish to deepen or plug back a well, the conditions under which the well may be taken over by the parties wishing to conduct such operations, the basis of sharing the costs of deepening and plugging back, and the final adjustment or disposition of total well costs (including costs

of the deepening or plugging back operation) as between the parties who have borne a share of such total costs, shall be made the subject of a special agreement between such parties. In the event that none of the well owners wish to deepen or plug back the well, the majority Working Interest Owners of the lease embracing the well site (if they be parties other than the well owners) may deepen or plug back the well subject to a special agreement with the well owners concerning well costs and related matters mentioned in the preceding sentence. Arrangements to deepen or plug back a well, as aforesaid, shall be completed within 48 hours after notice by Unit Operator that the well has been completed as a dry hole when a drilling rig is on the well location, otherwise, within 30 days after Unit Operator's notice of completion or advice concerning the non-paying status of the well.

(c) In the event any well described in paragraph (a) of this Section 4.6 is proposed for abandonment by a well owner, and no arrangements to deepen or plug back are completed or in process in accordance with paragraph (b) of this Section 4.6, the well may be abandoned or continued in operation subject to the following conditions: If the well be a participating area well, it shall be plugged and abandoned or continued in operation as determined by the participating area Working Interest Owners in accordance with Section 2.4 hereof. If the well is not a participating area well, it may be plugged and abandoned by unanimous consent of the well owners. If some but not all of the well owners do not agree to abandonment of a well other than a participating area well, said parties shall pay the owners wishing to abandon a sum equal to the latter's proportionate share of the value of salvable material and equipment in and on the well, said value to be determined on the price basis set forth in Exhibit "1" attached less the estimated costs of salvaging. Upon receipt of said sum, the abandoning parties will execute proper bills of sale and division orders necessary to transfer their rights in said well and to its production from the formation in which completed to the parties not wishing to abandon; however, there shall be no formal conveyance of rights in and to any land or leasehold rights in the acreage surrounding said well and the percentage of participation of the parties hereto with respect to other wells and as to land and leasehold rights under this agreement and the Unit Agreement shall be unaffected by this transfer. No further wells shall be drilled to the same formation within the drainage area of said well, which shall be the spacing pattern then in use in the field, or in the absence of an established pattern, a square area of 640 acres for a gas well or 40 acres for an oil well

with the well at the center thereof. After such transfer of interests the well shall be operated for the account of the non-abandoning parties.

4.7 OPERATION OF COMPLETED WELLS: Any well completed hereunder which is capable of producing unitized substances and is included in a participating area shall be operated for the account of the parties included in such area and there shall be an adjustment of well costs in accordance with Article V hereof. Any well drilled outside a participating area which produces in such small quantity or poor quality as not to justify its inclusion in a participating area shall be operated for the account of the Working Interest Owners who paid for the well and said Working Interest Owners shall discharge the royalty obligation on the production taken by them from said lease.

ARTICLE V

INVESTMENT ADJUSTMENT

5.1 ON ESTABLISHMENT OF PARTICIPATING AREA: In the event any test well or wells drilled 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 formed as provided in Section 11 of the Unit Agreement, and there shall be those investment adjustments hereinafter provided, and thereafter the costs incurred 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 interests attributable to 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, in the absence of a subsequent enlargement of the participating area.

(a) Investment Adjustment of Intangibles: On the establishment of the participating area there shall be retroactive adjustment of the actual intangible cost incurred in drilling, completing and equipping for production the said producing test well or wells to the effective date of the establishment of the participating area to the end that the owners of working interests in the participating area established shall, in proportion to their respective percentages of participation in the participating area, reimburse without interest in the manner hereinafter provided the party or parties who paid for said intangible cost and expense of drilling, completing, and equipping for production the producing well or wells, it being understood that interests in intangibles shall be exchanged only for interest in intangibles or for

cash in order to effect said adjustment.

(b) Investment Adjustment of Tangibles: On the establishment of the participating area, there shall be a separate retroactive investment adjustment as to the tangible property in and appurtenant to said producing well or wells, tankage, pipelines, camps, separators, and without limitation all other structures, facilities, appliances, and property employed in the drilling, completion, equipping, and operation of said well, to the end that the owners of working interests in the Participating Area established shall reimburse without interest in the manner hereinafter provided the Working Interest Owners who purchased and paid for said equipment, for the actual cost thereof to the end that all of said property shall be owned by the Working Interest Owners in the Participating Area by undivided interests in proportion to their respective percentages of participation in the participating area, and to the end that the former owners thereof shall be reimbursed for their expenditures on the basis herein set out, it being understood that interests in tangibles shall be exchanged for interests in tangibles or for cash in order to effect said 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 Unit Agreement and this agreement.

5.2 ENLARGEMENT OF PARTICIPATING AREA: On the enlargement of any participating area as provided in the Unit Agreement, there shall be investment adjustments between the Working Interest Owners 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 costs and investments 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 enlarged participating area, and also to the end that the Working Interest Owners who have previously paid said costs shall be reimbursed on the basis hereafter set forth, and otherwise as set forth in Section 5.1 hereof, except:

(a) The affected Working Interest Owners in the participating area before its enlargement and those who paid for intangibles in the area to be admitted to the enlarged participating area, shall receive credit for the intangible cost of drilling, completing, and equipping for production all wells capable of producing the unitized substances within said enlarged 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 the region in a good and workmanlike manner at the time when said wells were drilled. Credits for tangibles in the participating area before enlargement and in the area to be included in the enlargement shall be given in accordance with a classification and appraisal thereof by the Working Interest Owners or a committee thereof, valued in accordance with the method set out in Section V of Exhibit "1" attached hereto, or otherwise as agreed to by the Working Interest Owners. The sum total of said credits shall be apportioned to the enlarged participating area, and separate cash adjustment of tangibles and intangibles as set forth in Section 5.1 shall be made among the Working Interest Owners through the Unit Operator. No credit shall be given for the previous cost of operating any wells or for the intangible cost of 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.

(b) If the extension well which caused the enlargement of the Participating Area was drilled under the provisions of Section 4.4(b) (2) hereof, the Working Interest Owners who paid for the drilling of said well shall be credited on the investment adjustment with 150% of the intangible cost and 150% of the tangible cost as set out in Section 5.1 hereof, of drilling, completing, and equipping said well for production, provided, however, that if any Working Interest Owner or group of Owners shall request the drilling of more than one well at a time under Section 4.4(b) (2) hereof, and the Participating Area shall not elect to drill any of them and said wells are thereafter drilled under Section 4.4(b) (2) hereof, the 150% credit shall, as to any one owner or group of owners, apply only to the first well so drilled and completed as a paying producer, and the normal 100% credit shall be given on the remaining wells but if the Participating Area, pursuant to such requests, elects to drill one or more of the wells, either successively or concurrently, the 150% credit shall not apply to any of the remaining wells embraced in the requests and drilled by the Owners under Section 4.4 (b) (2) hereof.

(c) In the event the extension well, which causes the enlargement of the Participating Area, is drilled under Section 4.4(b) (1) hereof and one or more Working Interest Owners in the Participating Area before enlargement elected not to participate in the cost and risk of the extension well, there shall be the normal investment adjustment as provided in Section 5.2 and 5.2(a) hereof and in addition

thereto the Non-Consenting Working Interest Owners shall be charged with and shall pay an additional one-half of what would have been their respective shares of the intangible cost and an additional one-half of what would have been their respective shares in the tangible cost of drilling, completing and equipping the extension well had they participated therein, and said sum shall be distributed pro rata to the Working Interest Owners who paid for the cost of the extension well.

5.3 CONTRACTION OF PARTICIPATING AREA: On the contraction of a participating area to exclude land then regarded as reasonably proved not to be productive, as provided in Section 11 of the Unit Agreement, where it appears that the sum total of the intangible and tangible costs charged to the excluded land up to the date of exclusion have exceeded the proceeds of the sale of the working interest shares of the unitized substances (or the value thereof, in the event the same are not sold), allocated to said excluded lands after deducting the taxes and operating expenses attributable to said excluded lands, up to the date of exclusion, the Working Interest Owners in the contracted participating area, in proportion to their respective interests therein, shall reimburse in cash the working interest owners in the excluded lands for the excess of such costs. In making the adjustment to the end of securing this reimbursement, revenues allocated to the excluded acreage shall first be applied to the extinguishment of the operating costs, and second to the extinguishment of the intangible investment, and third, whatever if any remains shall be applied on the tangible investment. But if the proceeds or value of the production allocated to the excluded lands shall exceed the costs charged thereto, the Working Interest Owners in the excluded lands may retain the same and there shall be no reimbursement. In any case there shall be no adjustment of settlements which were made to royalty owners prior to the contraction of the participating area. Following the effective date of the contraction of a participating area, costs will be borne and tangibles will be owned (including any tangibles located on the excluded area) by the Working Interest Owners in the contracted participating area, and the benefits shall be allocated to them, and to the royalty holders in such contracted participating area, in proportion to their acreage basis ownership therein.

ARTICLE VI

PRODUCTION

6.1 RENTALS: The Working Interest Owners on each tract shall pay all rentals,

advance rentals, or delay rentals due under the lease thereon, and shall concurrently submit to the Unit Operator evidence of payment. If the Working Interest Owners on any tract determine not to pay any such rental, they shall notify Unit Operator at least sixty days before the due date, and shall thereupon assign to all other Working Interest Owners in the Unit Area requesting such assignment, proportionate to their then interest, all their right, title and interest under said lease. If the Working Interest Owners on any tract fail to pay the rental and fail to notify the Unit Operator of their intention not to pay the same, the Unit Operator may, but shall not be obligated to, pay said rental, and shall charge the same to their account. In the event of loss of title to a lease for failure to pay rental, all loss occasioned thereby shall be that of the Working Interest Owners who should have paid the same, and they hereby expressly indemnify and agree to hold harmless the Unit Operator and all other Working Interest Owners hereunder from any damages, claims, or liability occasioned by said loss of title, and the parties losing such title shall lose their interest hereunder represented thereby, but except as above set out, no Working Interest Owner shall, in the absence of bad faith sustain any liability to the Unit Operator or to any other Working Interest Owner hereunder on account of such loss of title.

6.2 ROYALTIES, COMPENSATORY ROYALTY: Except as provided in Section 4.7 and 6.3(c) hereof, each Working Interest Owner shall pay and satisfy all obligations for royalties, overriding royalties, and payments out of production payable on the lease interests contributed by such Working Interest Owner to the Unit Agreement and this agreement. In the event that any such royalty owner has not committed his interest to the Unit Agreement, and the Working Interest Owners having interests in said tract have not withdrawn their signatures from this agreement prior to the approval of the Unit Agreement by the Department of the Interior, such Working Interest Owners shall be responsible for payment of all royalty obligations to such non-consenting royalty owner and for all claims for damages for drainage or otherwise, and do hereby indemnify and hold the other parties hereto harmless for and on account of any and all royalty claims and all demands of any nature by said non-consenting royalty owner under this Section.

In cases where the affected Working Interest Owners determine to pay compensatory royalty or damages in lieu of drilling a demanded offset well, such compensatory royalty shall be paid by the Unit Operator. Compensatory royalty for drainage

of lands within a Participating Area shall be apportioned to all the Working Interest Owners having interests therein, in proportion to their respective interests. Compensatory royalty for drainage of lands situated outside any Participating Area shall be apportioned to those Working Interest Owners having interests in such lands.

6.3 DISPOSAL OF PRODUCTION:

(a) Each Working Interest Owner shall own and, at its own expense, shall take in kind and separately dispose of its proportionate part of all the unitized substances produced and saved from the lease acreage covered hereby, exclusive of the production that the Unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided, that each of the parties shall pay or secure the payment of the royalty interest in its proportionate part of the production.

(b) During such time or times as a Working Interest Owner shall fail or refuse to take in kind or separately dispose of his proportionate part of the unitized substances, the Unit Operator, except as otherwise provided in Sub-section (c) hereof, shall have the authority, revocable by the Working Interest Owner at will, to purchase at not less than the prevailing field market price, or to sell, all or part of such unitized substances to others at the same price that the Unit Operator receives for its own portion of unitized substances. All such sales by the Unit Operator of the working interest share of others shall be only for such reasonable periods of time as are consistent with the minimum needs of the Industry under the circumstances, but in no event shall any such sale be for a period in excess of one year.

(c) Any Working Interest Owner may withhold the production and sale of his or their allocated working interest shares of natural gas or casinghead gas produced hereunder by giving the Unit Operator notice to such effect. The remaining parties desiring to sell their allocated shares hereinafter called "selling parties" may, and if lawfully required, shall thereupon proceed to produce and sell all or any part of the gas and casinghead gas production for which they have a market, or for which a market exists, and the gas purchasers shall pay the royalty, overriding royalty, and oil payment shares of such production to the Unit Operator who shall make settlement with said royalty owners on the basis of allocation otherwise set out in the Unit Agreement and herein as though there had been no withholding. The working interest shares of the gas so produced and sold shall be the property of the selling parties and they

shall receive direct payment and credit therefor as an advance on their allocated shares of gas and casinghead gas to be produced in the future, and subject to future adjustment of production as hereafter provided on account of the overage thus created. Unit Operator shall receive copies of records of all gas sales and shall supervise the adjustment of overages and underages to conform to allocated shares of production. There shall be an adjustment out of production of current overages and underages among the selling parties at the end of each calendar year. At any future time any withholding party may by written notice to Unit Operator elect to dispose of his allocated share under Sub-sections (a) or (b) of this Section and Unit Operator shall notify the gas purchasers of the selling parties. Thereupon the withholding party who has elected to sell shall be entitled to sell to his purchaser not only his current allocated share of the gas and casinghead gas, but also fifty per cent (50%) of the current allocated shares of gas of the previously selling parties until the cumulative overage and underage as between them has been equalized. If the gas supply is depleted before such equalization occurs, there shall be no further adjustment. All contracts for the sale and purchase of gas or casinghead gas shall be confined to the shares of gas allocated to the seller under the terms of the Unit Agreement and this Agreement, and shall be made subject to the provisions of this Sub-section, and all attempted sales in violation of the provisions hereof shall be void and unenforceable. The Working Interest Owners may adopt detailed procedures for carrying this Sub-section into effect.

ARTICLE VII

TITLES TO UNITIZED INTERESTS

7.1 TITLE EXAMINATION--FIRST WELL: Each Working Interest Owner hereby represents that it is now the owner of the interests in tracts of land in the Unit Area as set out in Exhibit "B" attached to the Unit Agreement. On the execution of this agreement, the Working Interest Owners on each and every lease covering land, any part of which is situated within a 2,560-acre area surrounding the location for the first test well in such an outline as may be delineated by the Working Interest Owners in the Unit Area, shall furnish the Unit Operator with: (a) up-to-date abstracts of title, (b) copies of all title opinions and title documents in its possession, and (c) in addition, for lands of the United States or of Indian Tribes or restricted Indians, acceptable up-to-date reports as to the status of said lands as appears from the

records of the Department of the Interior, and (d) in addition, for State lands, an acceptable report or transcript showing the status of lands as appears on the records of the State Land Office. The Working Interest Owners within the 2,560-acre area shall by majority vote promptly appoint a title committee who shall examine or cause to be examined all of said titles and have title opinions prepared and copies thereof distributed to all of the aforesaid Working Interest Owners. All expenses of and in connection with said title examination shall be charged to the Working Interest Owners within the area of the title examination in proportion to the acreage ownership, and each Working Interest Owner shall severally pay the cost of all curative work on its own titles. The Working Interest Owners within the 2,560-acre area shall by vote as provided in Section 2.4 hereof accept or disapprove all titles. In the event that title to any tract or interest therein shall be disapproved, such tract or interest shall be treated as uncommitted to the Unit Agreement and this agreement, unless the true owner shall commit said interests to said agreements.

7.2 TITLE EXAMINATION--SUBSEQUENT WELLS: Prior to the drilling of any additional well hereunder title shall in like manner be examined and accepted as above described covering all leases any part of which are within a 2,560-acre area surrounding the proposed well in such an outline as may be delineated by the Working Interest Owners, except as to titles previously accepted as above set out.

The Working Interest Owners in any participating area affected may by vote as provided in Section 2.4 hereof waive or modify the requirements of this section to meet special conditions as they may arise, or may require the examination of title to additional lands.

7.3 LOSS OF TITLE--BEFORE APPROVAL: In the event that, prior to approval of title by the Working Interest Owners, title to any tract of land or interest therein shall fail, the parties hereto who improperly claimed an interest in said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify the Unit Operator and all other Working Interest Owners from any and all liability on account thereof, and unless the true owner shall commit said interest to this agreement, said tract or interest shall be eliminated from this agreement, and the Unit Agreement.

7.4 LOSS OF TITLE--AFTER APPROVAL: In the event that title to any tract of

land within a participating area shall fail after acceptance of title by the Working Interest Owners, the loss and any ensuing liability shall be charged as a common loss of the Working Interest Owners having interests in that participating area, but the percentages of participation of the parties whose title has failed shall not be changed as to other lands within any participating area that embraces any of such land as to which title has failed. If title to a tract without any participating area shall fail after acceptance, the loss and liability shall be confined to the Working Interest Owners having interests in that tract. If, however, the true owner of the interests shall commit his said interest to the Unit Agreement and this agreement, then the percentage of participation of all affected parties shall be reduced proportionately to permit the admission of the true owner to his proper percentage of participation. Admission of the true Working Interest Owner shall be on such terms and conditions as may be approved by the Working Interest Owners, but otherwise, subject to any valid claims of the true owner, there shall be no adjustment of past cost, investment, production, or proceeds on failure of a previously approved title, except as otherwise provided by any indemnity contract which may be given.

ARTICLE VIII

CHANGE OF OWNERSHIP

8.1 ASSIGNMENTS: Except as otherwise may be provided in this Article, any Working Interest Owner may, at any time, transfer or assign all 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, obligations, and liabilities thereof. On the making of such assignment, 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. No assignment made under the provisions of this Section shall be binding upon the Unit Operation until a certified copy of said assignment has been delivered to Unit Operator. The terms of this agreement shall be deemed to be covenants running with the land and leasehold estates and interests therein of the parties hereto, and shall be binding upon and inure to the benefit of the parties hereto, their heirs,

devisees, personal representatives, successors, and assigns.

8.2 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 Working Interest Owners requesting the assignment 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. If no one requests an assignment, the party may exercise his right of surrender as provided in the Unit Agreement. 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 assignees 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.

8.3 SUBSEQUENT JOINDER: Prior to commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have not joined in the Unit Agreement shall be privileged to join in this agreement by subscribing the Unit Agreement and this agreement. After commencement of operations under the Unit Agreement, however, subsequent joinder in the Unit Agreement and in this agreement by any party owning a working interest in the Unit Area shall be on such reasonable terms and conditions as the Working Interest Owners who are then committed to the Unit Agreement and this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

ARTICLE IX

MISCELLANEOUS PROVISIONS

9.1 FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading,

demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

9.2 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, or such other addresses as may thereafter be furnished.

9.3 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 or joint liability between or among the parties hereto. 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 comingled with its own funds and distributed by Unit Operator as provided for in this agreement. Each party hereto hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, insofar as such Subchapter or any portion or portions thereof may be applicable to the parties in respect of the operations covered by this agreement. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or, should said regulations require each party to execute such further evidence, each party agrees to execute such evidence, or to join in the execution thereof.

9.4 HEADINGS: The Index and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing the instrument.

ATTEST:

DATE:

EL PASO NATURAL GAS PRODUCTS COMPANY

AUG 6 1959

By Don P. Howell
ATTORNEY-IN-FACT President

Secretary

Address: P.O. Box 1492 El Paso, Texas

ATTEST:

PUBCO PETROLEUM CORPORATION

Jack J. Sta
Asst. Secretary

8-7-59

By [Signature]
VICE President

Address: P.O. Box 1419 ALBUQUERQUE, NEW MEXICO

ATTEST:

BROOKHAVEN OIL COMPANY

Louise J. Scott
Secretary

8-18-59

By [Signature]
President

Address: P.O. Box 1267 Scottsdale, Arizona

ATTEST:

GULF OIL CORPORATION

[Signature]
Secretary P. O. Box 2097

JUL 21 1959

By [Signature]
President
H. D. Bedford - Attorney in Fact

Address: Denver, Colo.

ATTEST:

NORTHWEST PRODUCTION CORPORATION

Charles Cunningham
Asst. Secretary

8-27-59

By [Signature]
VICE President

Address: 520 Simms Building ALBUQUERQUE, New Mexico

ATTEST:

THE SIDWELL CORPORATION

[Signature]
Secretary

7/2/59

By [Signature]
President

Address: P.O. Box 8443 DENVER 10, COLORADO

ATTEST:

SOUTHERN PETROLEUM EXPLORATION, INC.

[Signature]
Secretary

7-29-59

By [Signature]
President

Address: SISTERSVILLE, West VIRGINIA

STATE OF TEXAS)
COUNTY OF TARRANT }

On this 3 day of September, 1959, before me appeared D. B. Mason, Jr. to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact of PAN AMERICAN PETROLEUM CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said D. B. Mason, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:
6-1-61

Frank Ratter
Notary Public in and for Tarrant County,
Texas

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of PETRO-ATLAS, INC., a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of COLORADO OIL & GAS CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me appeared _____, to me personally known, who, being by me duly sworn did say that he is the _____ President of EL PASO NATURAL GAS ~~RESOURCES~~ COMPANY, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF New Mexico)
COUNTY OF Bernalillo)

On this 7 day of March, 1959, before me appeared _____
Frank D. Gorham, Jr., to me personally known, who, being by me duly sworn did say that he is the Vice President of PUBCO PETROLEUM CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ Frank D. Gorham, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

My Commission Expires Jan. 11, 1961

Robert C. Zimmerman
Notary Public in and for _____
County, _____

STATE OF Arizona)
COUNTY OF Maricopa)

On this 18th day of August, 1959, before me appeared _____
Thos. B. Scott, Jr., to me personally known, who, being by me duly sworn did say that he is the _____ President of BROOKHAVEN OIL COMPANY, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Thos. B. Scott, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

11-18-62

Ladene A. Pohl
Notary Public in and for Maricopa
County, Arizona

STATE OF Colorado)
City and)
COUNTY OF Denver)

On this 21 day of July, 1959, before me appeared H. D. Bedford, to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact President of GULF OIL CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said H. D. Bedford acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:
OCT 9 1961

Michael J. Pap
Notary Public in and for City and
County, of Denver, Colo

STATE OF NEW MEXICO)
COUNTY OF BERNALILLO)

On this 27th day of AUGUST, 1959, before me appeared J. M. CLARK, to me personally known, who, being by me duly sworn did say that he is the VICE President of NORTHWEST PRODUCTION CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authorith of its Board of Directors, and said J. M. CLARK acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:
JUN 17 1963

[Signature]
Notary Public in and for BERNALILLO
County, NEW MEXICO

STATE OF Colorado)
COUNTY OF Denver)

On this 2nd day of July, 1959, before me appeared W. W. Sidwell Jr., to me personally known, who, being by me duly sworn did say that he is the President of THE SIDWELL CORPORATION, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said W. W. Sidwell Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:
3-12-60

Virginia Leigh
Notary Public in and for Denver
County, Colorado

STATE OF WEST VA.)
COUNTY OF TYLER)

On this 29th day of July, 1959, before me appeared Paul W. Neuenschwander to me personally known, who, being by me duly sworn did say that he is the _____ President of SOUTHERN PETROLEUM EXPLORATION, INC., a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Paul W. Neuenschwander acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Ray C. Heilman
Notary Public in and for TYLER
County, WEST VA.

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared R. W. BOLACK and wife, _____ BOLACK, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared JOHN N. EDDY and wife _____ EDDY, to me known to be the persons described in and who executed the foregoing instrument and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared CHARLES B. GONSALES and wife, _____ GONSALES, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared J. R. ABRAHAM and wife _____ ABRAHAM, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

Notary Public in and for _____
County, _____

STATE OF Maricopa)
COUNTY OF Maricopa)

Robert... On this 20th day of September, 1957, before me personally appeared ~~W. F. BARR~~ and wife Annabelle Barr ~~BARR~~, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My Commission expires:

5/15/57

[Signature]
Notary Public in and for _____
County, _____

EXHIBIT " 1 "

PASO-T-1955-2

Attached to and made a part of UNIT OPERATING AGREEMENT
Northeast Hogback Unit Area
San Juan County, New Mexico

ACCOUNTING PROCEDURE
(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"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 Subparagraph 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 ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges 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. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period 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 making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

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 for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

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 directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. 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 may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. 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. Service

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and 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 cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments 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 or levied 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 and Claims

A. Premiums paid for insurance required to be 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 (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's Farmington Area office located at or near Farmington, New Mexico (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	PRODUCING WELL RATE (Use Completion Depth)			
	DRILLING WELL RATE Each Well	First Five	Next Five	All Wells Over Ten
0 - 4000'	\$150	\$30	\$25	\$15
4000 - 8000'	225	50	40	30
8000 - 12000'	300	65	55	45
Over 12000'	400	75	65	55

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate 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. In connection with overhead charges, the status of wells shall be as follows:

- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the 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.
 - (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
 - (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
 - (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
 - (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. 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. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

No charge, either direct or indirect, will be made to the joint account for operating and maintenance expense of Operator's fully-owned warehouse.

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the 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, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load 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 seventy-five per cent (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 secondhand 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 fifty per cent (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, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. 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.

5. 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, fuel, power, compressor and other auxiliary services 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 at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the 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 and tractor rates may 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. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. 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. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. 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. Such credits shall appear in the monthly statement of operations.

3. 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 one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, 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.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, 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, Notice and Representation

At reasonable intervals, 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.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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.

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

3. 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.

EXHIBIT "2"

Attached to and made a part of Unit Operating Agreement, Northeast Hogback Unit Area, San Juan County, New Mexico.

INSURANCE

I. For Operations by Unit Operator: The Unit Operator shall carry for the benefit of the joint account insurance to cover the Unit Operator's operations on the lands covered by this agreement, as follows:

(a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability.

(b) Comprehensive general liability insurance, excluding products: In amounts of \$100,000.00 for injuries to one person, \$500,000.00 for injuries in one accident, for property damage in the amounts of \$100,000.00 for each accident and \$250,000.00 aggregate.

(c) Automobile public liability and property damage insurance: In amounts of \$100,000.00 for injuries to one person, \$300,000.00 for injuries in one accident and \$10,000.00 for property damage.

II. For Contracted Operations: The Unit Operator shall require its contractors and subcontractors working or performing services on the lands covered hereby to comply with the workmens' compensation laws of the State of New Mexico and to carry such other insurance and in such amounts as the Unit Operator shall deem necessary.