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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

September 19, 1994

HAND DELIVERED

19 1994

Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Case 11114

- Re: Application of Great Western Drilling Company
for Statutory Unitization for its South Carter
(San Andres) Unit, Lea County, New Mexico; and
- Re: Application of Great Western Drilling Company
for Approval of a Waterflood Project for
its South Carter (San Andres) Waterflood Project
and to Qualify Said Project for the Recovered Oil
Tax Rate Pursuant to the "New Mexico Enhanced Oil
Recovery Act," Lea County, New Mexico

Dear Mr. Stogner:

On behalf of Great Western Drilling Company, please find enclosed our two referenced applications which we request be set for hearing on the next available Examiner's docket now scheduled for October 13, 1994.

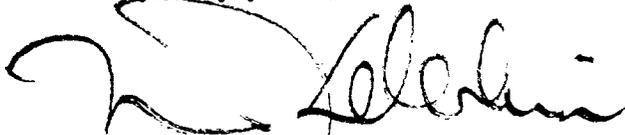
By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the hearing may preclude them from any involvement in this case at a later date.

Mr. Michael E. Stogner
September 19, 1994
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Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, October 7, 1994, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisements of these cases for the NMOCD docket.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. Thomas Kellahin

WTK/tk
Enclosure

cc: Great Western Drilling Company and
By Certified Mail - Return Receipt
All Parties Listed on Form C-108
All parties subject to statutory unitization

PROPOSED ADVERTISEMENT

CASE 1114 Application of Great Western Drilling Company for approval of a waterflood project and to qualify said project for the recovered oil tax rate pursuant to the Enhanced Oil Recovery Act, Lea County, New Mexico. Applicant seeks approval to institute a waterflood project in its South Carter (San Andres) Unit (being the subject of Case) located in portions of Sections 5,6,7, and 8, Township 18 South, Range 39 East, Lea County, New Mexico by injection of water into the San Andres formation, South Carter-San Andres Pool, through 5 injection wells located within the unit area. Applicant further seeks to qualify this project for the recovered oil tax rate pursuant to the "New Mexico Enhanced Oil Recovery Act" (Law 1992, Chapter 38, Sections 1 through 5). Said project is located approximately 6 miles north-northeast from Hobbs, New Mexico.

PROPOSED ADVERTISEMENT

CASE 11114 Application of Great Western Drilling Company for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the South Carter-San Andres Pool underlying its proposed South Carter (San Andres) Unit encompassing some 624 acres, more or less, of Federal and Fee lands, in a new project area comprising portions of Sections 5,6,7 and 8, T18S, R39E, NMPM, Lea County, New Mexico. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of horizontal and vertical limits of the unit area; the determination of the fair, reasonable and equitable allocation of production and costs of production, including capital investments, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investments in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Said unit area is located approximately 6 miles north-northeast of Hobbs, New Mexico.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF GREAT WESTERN DRILLING COMPANY
FOR STATUTORY UNITIZATION OF THE
SOUTH CARTER (SAN ANDRES) UNIT,
LEA COUNTY, NEW MEXICO

1 9 1991

CASE NO. 11114

APPLICATION

Comes now GREAT WESTERN DRILLING COMPANY, by its attorneys, Kellahin & Kellahin, and pursuant to the New Mexico Statutory Unitization Act (70-7-1 through 70-7-21 NMSA-1978), applies to the New Mexico Oil Conservation Division for an order approving its proposed South Carter (San Andres) Unit, an enhanced oil recovery project in the South Carter-San Andres Pool, for an area comprising 624 acres, more or less, of Fee and Federal leases in portions of Sections 5-8, T18S, R39E, NMPM, Lea County, New Mexico, and in support states:

(1) Great Western Drilling Company, is a Texas corporation authorized to transact business in the State of New Mexico, and is engaged in the business of, among other things, producing and selling oil and gas as defined by the New Mexico Statutory Unitization Act (70-7-1 through 70-7-21 NMSA-1978) referred to as the "Act."

(2) Great Western Drilling Company is the proposed operator of an enhanced oil recovery unit to be called the "South Carter (San Andres) Unit."

(3) The proposed area for which application is made for unitized operations pursuant to the Act is known as the "South Carter (San Andres) Unit" and consists entirely of Fee and Federal oil & gas leases located in Lea County, New Mexico and comprises 624 acres, more or less, identified as the "Unit Area" on Exhibit "A" attached and being the following described area:

TOWNSHIP 18 SOUTH, RANGE 39 EAST, NMPM

- Sec 5: (irregular sized section)
 - Lots 4, 5 & 6;
 - S/2NW/4; E/2SW/4; and
 - W/2SW/4
- Sec 6: SE/4SE/4
- Sec 7: NE/4NE/4
- Sec 8: (irregular sized section)
 - Lot 1; N/2NW/4; and
 - North 120 acres of 318.7 acre tract
 - being lots 2,3,4, S2/2NW/4 & SW/4

(4) The "Unitized Formation" shall mean that stratigraphic interval underlying the Unit Area found between the top of the San Andres formation to the base of the San Andres formation in the South Carter-San Andres Pool. The top of the San Andres formation for unitization purposes is defined as all points underlying the Unit Area correlative to the depth of 4,820 feet and the base of the San Andres dolomite is defined as all points underlying the Unit Area correlative to the depth of 5,590 feet, both depths as identified on the Halliburton Radioactivity Log for the Moore & Turner McQuien Well No. 1, dated January 5, 1955, located 1980 feet FNL and 435 feet FEL of Section 8, T17S, R34E, NMPM, Lea County, New Mexico.

(5) The Unitized Formation included within the Unit Area has been reasonably defined by development.

(6) Great Western Drilling Company proposes to institute an enhanced oil recovery project for the secondary recovery of oil and gas from the Unitized Formation within the Unit Area.

(7) The proposed plan of unitization is embodied in the Unit Agreement, a true and correct copy of which is attached hereto and incorporated herein by reference as Exhibit "B", said plan being fair, reasonable and equitable.

(8) The proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid is embodied in the Unit Operating Agreement, a true and correct copy of which is attached hereto and incorporated herein by reference as Exhibit "C".

(9) Great Western Drilling Company projects that the unitized management, operations and further development of the Unitized Formation within the Unit Area will increase reserves by approximately 1,300 MSTBO and will improve the producing rate of this reservoir. It is therefore evidence that the unitized management, operations and further development of the Unitized Formation is reasonably necessary in order to effectively carry on enhanced oil recovery operations to substantially increase the ultimate recovery of oil and gas from the Unitized Formation within the Unit Area.

(10) The Unitized Formation within the Unit Area constitutes a reasonable geologic area to be effectively and efficiently developed by enhanced oil recovery operations.

(11) The method of operation which is proposed in the Unit Operating Agreement is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the Unitized Formation than would otherwise be recovered.

(12) The estimated additional costs of conducting unitized operations will not exceed the estimated value of the additional oil and gas to be recovered plus a reasonable profit.

(13) The proposed unitization and adoption of the methods of operation embodied in the Unit Operating Agreement will benefit the working interest owners and royalty owners of the oil and gas rights within the Unitized Formation of the Unit Area.

(14) Great Western Drilling Company has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

(15) The participation formula contained in the Unit Agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis, and protects the correlative rights of all owners of interests within the Unit Area.

(16) Applicant has obtained the approval for the unit from a sufficient percentage of the interest owners so that the unit operations will be orderly and uniformly develop the area and therefore will avoid waste and protect correlative rights

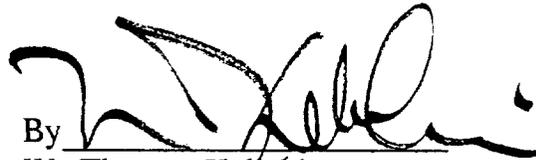
(17) The consenting parties to the Unit hold sufficient interest to give the Unit reasonable effective control of operations.

(18) Pursuant to Division notice rules, a copy of this application was mailed, certified mail-return receipt requested, to all parties listed on Exhibit "D" notifying them of this application and the hearing to be held on October 13, 1994.

(19) The statutory unitization of the Unitized Formation within the Unit Area in accordance with the plan embodied in the Unit Agreement and Unit Operating Agreement will prevent waste and protect correlative rights.

WHEREFORE, Great Western Drilling Company requests that this application be set for hearing on October 13, 1994 before the Division's Examiner and that the Division enter its order approving the Unit Agreement and Unit Operating Agreement and providing for the unitized management, operations and further development of the Unitized Formation within the Unit Area in accordance with the Act.

Respectfully submitted,



By
W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504
phone (505) 982-4285
ATTORNEYS FOR APPLICANT

THE FOLLOWING RATIFICATIONS
HAVE NOT BEEN RECEIVED
BY GREAT WESTERN DRILLING COMPANY

<u>OWNER/ADDRESS</u>	<u>TYPE OF INTEREST</u>	<u>UNIT INTEREST</u>
Arch Rowan Altgelt Trust #5522, Team Bank, David Frame, Jr. & Jean Rowan McNab, Trustees Drawer 99084 Fort Worth, TX 76199	ORRI	.00000645
James E. Altgelt Trust #5523, Team Bank, David Frame, Jr. & Jean Rowan McNab, Trustees Drawer 99084 Fort Worth, TX 76199	ORRI	.00000645
Mary Susan Altgelt Trust #5524, Team Bank, David Frame, Jr. & Jean Rowan McNab, Trustees P.O. Drawer 99084 Fort Worth, TX 76199	ORRI	.00000645
Amoco Production Company P.O. Box 841521 Dallas, TX 75284	ORRI	.00046455
Lester Armour, Jr. 461 Park Forest Way W. Palm Beach, FL 33414	ORRI	.00000468
Broadcast Service Co., Inc. 625 N. Michigan Avenue Chicago, IL 60611	ORRI	.00000585
Eleanor A. Brown 451 Laurel Street Menlo Park, CA 94025	RI	.00004085
Robert E.L. Brown, Jr. 21516 Betty Ann Court Los Gatos, CA 95030	RI	.00004084
Ronald J. Byers 400 W. 15th St., Suite 1600 Austin, TX 78701	RI	.00019478
Eugene A. Casaroll, Jr., POA 13761 Bell Court Sterling Heights, MI 48312	ORRI	.00000585
Case Western Reserve Univ. Investment Manager 2040 Adelbert Rd. Cleveland, OH 44106	ORRI	.00000585
Comerica Bank Trust Real Estate Dept.-3228 P.O. Box 75000 Detroit, MI 48275-3228	ORRI	.00000585
Clinton F. Davidson, III Hunter Creek Unit 942 0143 Lone Pine Road Aspen, CO 81611	ORRI	.00005845

<u>Owner/Interest</u>	<u>Type of Interest</u>	<u>Unit Interest</u>
Catherine B. Debord 3228 Veda St. Redding, CA 96001	ORRI	.00004083
Gencorp, Inc. Tax Dept. 175 Ghent Road Fairlawn, OH 44313	ORRI	.00001753
James McMillian Gibson c/o American Security & Trust Co. Washington, DC 20013	ORRI	.00000585
Jack H. Mayfield, Jr., Margaret Bell, Dorothy Rice Cooper, John H. Mitchell and N. Neal Garland, Co-Ind. Executors of the Estate of Iris Goldston, Deceased c/o Byrnes, Lazor & Fishchew 2603 August, Suite 711 Houston, TX 77057	ORRI	.00069915
Goldston Oil Corporation Agent, Owners Revenue Acct. P.O. Box 570365 Houston, TX 77257	ORRI	.00507370
Harvey A. Heller, Jr., Trustee of the Heller Company Revocable Trust P.O. Box 3206 Tulsa, OK 74101	ORRI	.00024382
Corellia Brown Hoyt, Deceased Society National Bank, Trustee U/W/O #S-4068100 Trust Tax Dept. 800 Superior Avenue Cleveland, OH 44114	ORRI	.00001169
Ann Whitney Hyder Trust Elton M. Hyder, Jr. & Team Bank, Co-Trustees Acct. #2128 P.O. Box 99084 Fort Worth, TX 76199	ORRI	.00001161
Brent Rowan Hyder Trust Elton M. Hyder, Jr. & Team Bank, Co-Trustees Acct. #2127 P.O. Box 99084 Fort Worth, TX 76199	ORRI	.00001162
Elton M. Hyder, III Trust Elton M. Hyder, Jr. & Team Bank, Co-Trustees Acct. #2129 P.O. Box 99084 Fort Worth, TX 76199	ORRI	.00001161
Department of the Interior	RI	.00780240

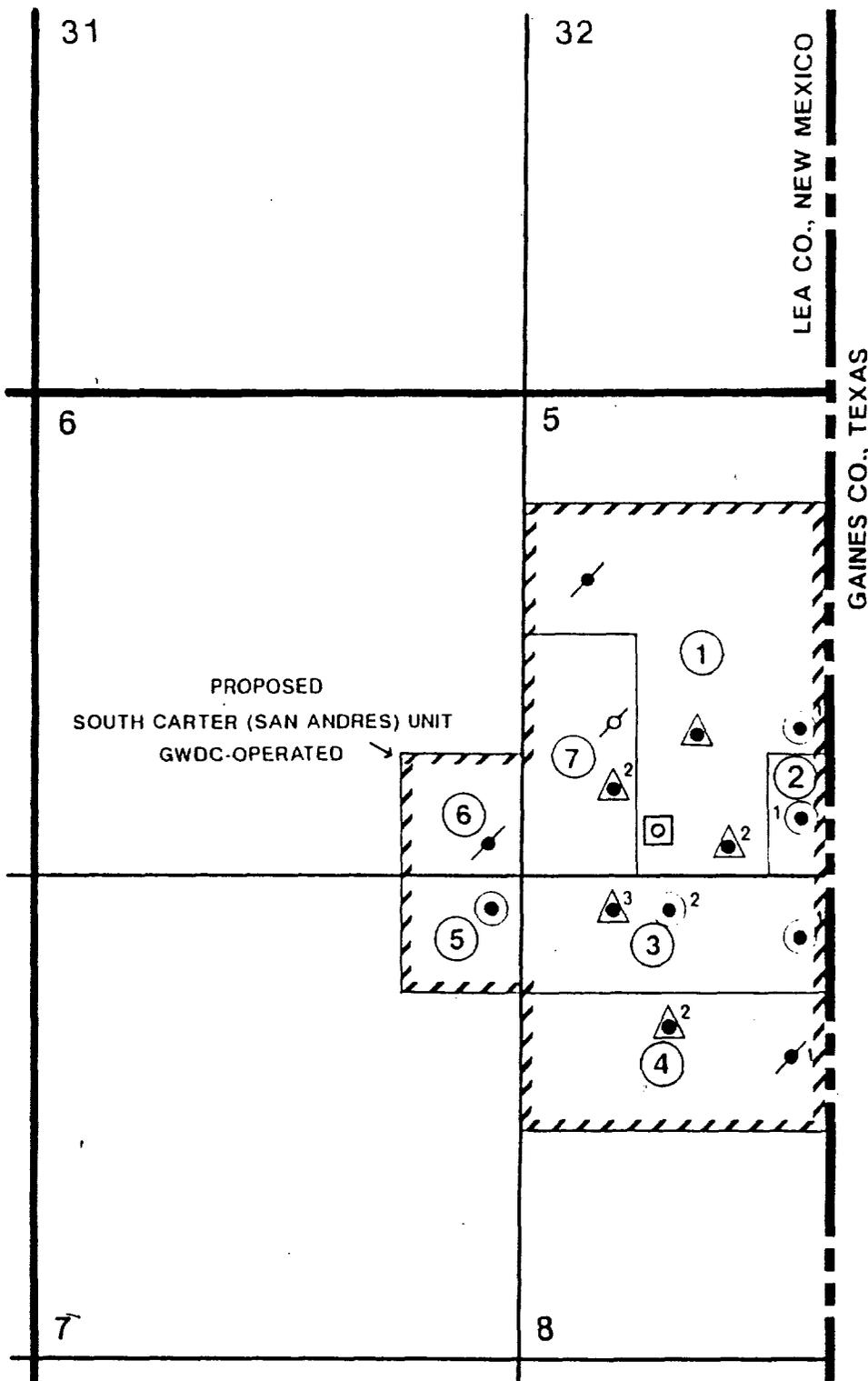
<u>Owner/Address</u>	<u>Type of Interest</u>	<u>Unit Interest</u>
Judith K. Robinson & John G. Brooks, Surviving Trustees U/O/T of Freda T. Kaufmann c/o Peter Shapland, Esq. 50 Rowes Wharf Boston, MA 02110	ORRI	.00000585
Erica Laughlin Trust #5526 Team Bank, David Frame, Jr. & Jean McNab, Trustees P.O. Drawer 99084 Fort Worth, TX 76199	ORRI	.00000968
Patrick Laughlin Trust #5525, Team Bank, David Frame, Jr. & Jean McNab, Trustees P.O. Drawer 99084 Fort Worth, TX 76199	ORRI	.00000967
W.V. Lawrence & Emma G. Lawrence P.O. Box 2309 Hobbs, NM 88240	ORRI	.00118531
Paul B. Magnuson, Jr. Valley Road Locust Valley, NY 11560	ORRI	.00000585
Bert W. Martin 44 East Exchange Street Akron, OH 44308	ORRI	.00000585
Jack H. Mayfield, Jr. P.O. Box 200692 Houston, TX 77216		.00034958
Meridian Oil Production, Inc. P.O. Box 840656 Dallas, TX 75284	ORRI	.01428559
Jane S. Moore 4917 Rock Wood Parkway NW Washington, DC 20016	ORRI	.00000146
J. Hiram Moore, Ltd. P.O. Box 10908 Midland, TX 79702	ORRI	.00017247
Wynne H. Phelan 3721 Ella Lee Lane Houston, TX 77027	ORRI	.00000195
Elizabeth Ann Renick 224 44th Ave. NW Calgary, Alberta Canada T2K OJ1A	ORRI	.00000146
William M. Renick c/o Peggy J. Standefer 2872 Ivy Street San Diego, CA 92104	ORRI	.00000146
W.F. Rockwell, Jr. c/o Judith Zsiros 960 Penn Avenue Pittsburg, PA 15222	ORRI	.00000585

<u>Owner/Address</u>	<u>Type of Interest</u>	<u>Unit Interest</u>
Estate of Stella S. Rowan Mark Hart, Jr. & Jean Rowan McNab, Ind. Co-Trustees 307 W. 7th Street, Suite 1900 Fort Worth, TX 76102	ORRI	.00005807
Arch H. Rowan, III Trust #5527, Team Bank, David Frame, Jr. & Jean Rowan McNab, Trustees P.O. Drawer 99084 Fort Worth, TX 76199	ORRI	.00000967
Kelly Lynn Rowan Trust #2130, Elton M. Hyder, Jr. & Team Bank, Co- Trustees P.O. Box 99084 Fort Worth, TX 76199	ORRI	.00001161
Leigh Rowan Trust #2131 Elton M. Hyder, Jr. & Team Bank, Co-Trustees P.O. Box 99084 Fort Worth, TX 76199	ORRI	.00001161
Sydney Rowan Trust #5528 Team Bank, David Frame, Jr. & Jean Rowan McNab, Trustees P.O. Drawer 99084 Fort Worth, TX 76199	ORRI	.00000968
Lombard Sayre Estate c/o Shelly Ocana 318 Mendocino Ave., Suite 46 Santa Rosa, CA 95404	RI	.00321304
Kirby D. Schenck Trust c/o Western Commerce Bank Attn: Vicki Clark P.O. Box 1627 Roswell, NM 88202	RI	.00004905
Samuel B. Sherer, Jr. 1756 Allard Grosse Point Woods, MI 48236	ORRI	.00000585
J.E. Simmons Test. Trust A F/B/O Jean S. Sullivan 1st Natl Bank Lubbock, Suc. Trustee, Trust Dept. Acct. 101-3076 P.O. Box 1241 Lubbock, TX 79408	RI	.00118531
Beulah H. Simmons Test. Trust A F/B/O Jean S. Sullivan 1st Natl Bank Lubbock, Suc. Trustee, Trust Dept. Acct. 101-3033 P.O. Box 1241 Lubbock, TX 79408	RI	.00118528

<u>Owner/Address</u>	<u>Type of Interest</u>	<u>Unit Interest</u>
Beulah H. Simmons Test. Trust B F/B/O Mary Jane Hand 1st Natl Bank Lubbock, Suc. Trustee, Trust Dept. Acct. 101-3068 P.O. Box 1241 Lubbock, TX 79408	RI	.00118528
J.E. Simmons Test. Trust B F/B/O Mary Jane Hand 1st Natl Bank Lubbock, Suc. Trustee, Trust Dept. Acct. 101-3084 P.O. Box 1241 Lubbock, TX 79408	RI	.00118531
H.W. Sweatt 730 Second Ave. South Suite 506 Minneapolis, MN 55485	ORRI	.00000292
Mary Alice Geier Turner P.O. Box 71 Newagen, Maine 04551	ORRI	.00000292
John H. Webb P.O. Box 904 Midland, TX 79702	ORRI	.00017247
Lynne Williams 23 Rehwindel Road NW Edmonton, Alberta, Canada T6R 1Y3	RI	.00064261

SURFACE OWNERSHIP
SOUTH CARTER (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO

<u>OWNER</u>	<u>TRACT</u>	<u>DESCRIPTION</u>
Ronald G. Parker Star Rt. C, Box 451 Hobbs, NM 88240	1	Lots 4 and 5, S/2 NW/4 and E/2 SW/4 of Section 5, T-18-S, R-39-E, N.M.P.M., containing 212 acres, more or less
USA Bureau of Land Mgt. P.O.Box 27115 Santa Fe, NM 87502	2	Lot 6 of Section 5, T-18-S, R-39-E, N.M.P.M., containing 26 acres, more or less
Bar Four Dairy 4128 E. Rose Road Hobbs, NM 88240	3	Lot 1 and the N/2 NW/4 of Section 8, T-18-S, R-39-E, N.M.P.M., containing 106.0 acres, more or less
Charlsiea Taylor P.O. Box 54 Hobbs, NM 88240	4	The North 120 acres of a 318.7 acre tract being Lots 2, 3, 4, S/2 NW/4 and SW/4 of Section 8, T-18-S, R-39-E, N.M.P.M.
Charlsiea Taylor P.O. Box 54 Hobbs, NM 88240	5	NE/4 NE/4 of Section 7, T-18-S, R-39-E, N.M.P.M., containing 40 acres, more or less
Bar Four Dairy 4128 E. Rose Road Hobbs, NM 88240	6	SE/4 SE/4 of Section 6, T-18-S, R-39-E, containing 40.0 acres, more or less
Bar Four Dairy 4128 E. Rose Road Hobbs, NM 88240	7	W/2 SW/4 of Section 5, T-18-S, R-39-E, containing 80 acres, more or less



LEGEND

- UNIT PRODUCER
- PRODUCER TO BE DRILLED
- ▲ INJECTOR
- TRACT NUMBER
- ⊘ TEMPORARILY ABANDONED TO BE MADE A PRODUCER OR P&A
- ⊙ PLUGGED PRODUCER

GREAT WESTERN DRILLING COMPANY
SOUTH CARTER (SAN ANDRES) UNIT Lea County, New Mexico
<p>Scale in Feet</p>

UNIT AGREEMENT
SOUTH CARTER (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO
JANUARY 10, 1994

Exhibit "B"

UNIT AGREEMENT

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UNIT AGREEMENT
SOUTH CARTER (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 1994.

WITNESSETH:

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

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

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

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

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

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

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

ARTICLE I

DEFINITIONS

As used in this Agreement:

1.1 Unit Area is the land identified by Tracts in Exhibit A and shown on Exhibit B as to which this Agreement applies.

1.2 Unitized Formation is the subsurface portion of the Unit Area commonly known as the San Andres formation and that is stratigraphically equivalent to the interval between the logged depths of 4820' feet to 5590' as defined by the Halliburton Radioactivity Log on the Moore & Turner McQuien #1 dated January 5, 1955 located 1980' FNL and 435' FEL, Section 8, Township 18 South, Range 39 East, Lea County, New Mexico.

1.3 Unitized Substances are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent substances other than Outside Substances within or produced from the Unitized Formation.

1.4 Working Interest is an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, the owner of which interest is obligated to pay, either in cash or out of production or otherwise, a portion of the Unit Expense; however, Oil and Gas Rights that are free of lease or other instrument creating a Working Interest shall be regarded as a Working Interest to the extent of Seven-Eighths

(7/8) thereof and a Royalty Interest to the extent of the remaining One-Eight (1/8) thereof. A Royalty Interest created out of a Working Interest subsequent to the execution of this agreement by the owner of such Working Interest shall continue to be subject to such Working Interest burdens and obligations that are stated in this agreement and the Unit Operating Agreement.

1.5 Royalty Interest is a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

1.6 Royalty Owner is a party hereto who owns a Royalty Interest.

1.7 Working Interest Owner is a party hereto who owns a Working Interest.

1.8 Tract is each parcel of land described as such and given a Tract number in Exhibit A.

1.9 Unit Operating Agreement is the agreement entered into by Working Interest Owners, having the same Effective date as this agreement, entitled "Unit Operating Agreement, South Carter (San Andres) Unit", Lea County, New Mexico.

1.10 Unit Operator is the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations, acting as operator and not as a Working Interest Owner.

1.11 Tract Participation is the percentage shown on Exhibit A for allocating Unitized Substances to a Tract in accordance with the provisions of Article 5 hereof.

1.12 Unit Participation of a Working Interest Owner is the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract that qualifies for inclusion within the Unit Area by the Tract Participation of such Tract.

1.13 Outside Substances are all substances obtained from any source other than the Unitized Formation for a consideration by the Working Interest Owners and which are injected into the Unitized Formation.

1.14 Oil and Gas Rights are the rights to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

1.15 Unit Operations are all operations conducted pursuant to this agreement and the Unit Operating Agreement.

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

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

1.18 Effective Date is the time and date this agreement becomes effective as provided in Section 17.1.

1.19 Party is a signatory Party hereto.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits, which are attached hereto, are incorporated herein by reference:

2.1.1 Exhibit A is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.

2.1.2 Exhibit B is a map that shows the boundary lines of the Unit Area and the Tracts therein.

2.2 Reference to Exhibits. When reference is made to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

2.3 Exhibits Considered Correct. Exhibits A and B shall be considered to be correct until revised as herein provided.

2.4 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date, should have been divided into more than one Tract,

or that any mechanical miscalculation or clerical error has been made, Unit Operator, with the approval of Working Interest Owners, shall correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each such revision thereafter made shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

2.5 Filing Revised Exhibits. If an exhibit is revised, Unit Operator shall execute an appropriate instrument with the revised exhibit attached and file the same for record in the county in which this agreement is filed.

ARTICLE 3

CREATION AND EFFECT OF UNIT

3.1 Oil and Gas Rights Unitized. All Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit A, and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as their respective Oil and Gas Rights pertain to the Unitized Formation, so that Unit Operations may be conducted with respect to the Unitized Formation as if the Unit Area had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease contained all of the provisions of this agreement.

3.2 Personal Property Excepted. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by Working Interest Owners. The rights and interests therein as among Working Interest Owners are set forth in the Unit Operating Agreement.

3.3 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments pertaining to the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this agreement, but otherwise shall remain in effect.

3.4 Continuation of Leases and Term Interests. Production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, or other Unit Operations shall be considered as production from or operations upon each Tract, and such production or operations shall continue in effect each lease or term mineral or royalty interest as to all lands and formations covered thereby and included in this unit just as if such operations were conducted on and as if a well were producing from each Tract.

3.5 Titles Unaffected by Unitization. Nothing herein shall be construed to result in the transfer of title to Oil and Gas Rights by any Party hereto to any other Party or to Unit Operator. The purpose of this Agreement is to provide for the cooperative development and operation of the Unit Area and for the sharing of Unitized Substances as herein provided.

3.6 Injection Rights. Royalty Owners hereby grant Working Interest Owners the right to inject into the Unitized Formation any substances in whatever amounts Working Interest Owners deem expedient for Unit Operations, together with the right to drill, use, and maintain injection wells on the Unit Area, and to use for injection purposes any non-producing or abandoned wells or dry holes and any producing wells completed in the Unitized Formation.

3.7 Development Obligation. Nothing herein shall relieve Working Interest Owners from any obligation to develop reasonably as a whole the lands and leases committed hereto.

ARTICLE 4

PLAN OF OPERATIONS

4.1 Unit Operator. Working Interest Owners are concurrently herewith entering into the Unit Operating Agreement, designating

Great Western Drilling company as the initial Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations, which shall conform to the provisions of this agreement and the Unit Operating Agreement. If there is any conflict between such agreements, this agreement shall govern.

4.2 Method of Operation. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with good engineering and production practices, engage in pressure maintenance or secondary recovery operations by means of injection of gas, water, air, carbon dioxide, surfacants, soluble oil, or other substances, or any combination thereof, in the Unitized Formation.

4.3 Change of Method of Operation. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer in accord with good engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

ARTICLE 5

TRACT PARTICIPATIONS

5.1 Tract Participation. The Tract Participation of each Tract is shown in Exhibit A and shall be the summation of three factors, described and weighted as follows:

- (a) 50% of the ratio of actual cumulative oil produced from such tract as of 1/1/94 to the total cumulative oil produced by primary recovery operations from the Unitized Formation from all qualified Tracts: and
- (b) 10% of the ratio of the number of surface acres contained in such tract to the summation of the number of surface acres contained in all qualified Tracts: and
- (c) 40% of the ratio of the remaining recoverable primary oil in each tract as of 1/1/94 to the total remaining

recoverable primary oil from the Unitized Formation from all qualified Tracts.

5.2 Relative Tract Participations. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

5.3 Effective Dates of Tract Participation. The participation of each Tract set forth in Article 5.1 shall become effective as of the effective date of this agreement as determined by Article 17 hereof.

ARTICLE 6

ALLOCATION OF UNITIZED SUBSTANCES

6.1 Allocation to Tracts. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations effective during the period that the Unitized Substances were produced. The amount of Unitized Substances allocated to each Tract, regardless of whether the amount is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 Distribution Within Tracts. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal effect. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an agreement providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract. Any royalty or other payment which depends upon per well production or

pipeline runs from a well or wells on a Tract shall, after the Effective Date, be determined by dividing the Unitized Substance allocated to the Tract by the number of wells on the Tract capable of producing Unitized Substances on the Effective Date; however, if any Tract has no well thereon capable of producing Unitized Substances on the Effective Date, the Tract shall, for the purpose of this determination, be deemed to have one such well thereon.

6.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right, at their sole cost and expense, to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any and all extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of Unitized Substances shall be borne by the owner of such portion. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owners whose working interest is subject to such Royalty interest, shall be entitled to take in kind such share of Unitized Substances.

6.4 Failure to Take in Kind. If any Party fails to take in kind or separately dispose of such Party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the Party owning the share, to purchase or sell to others such share; however, all contracts of sale by Unit Operator of any other Party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owners of each affected Tract or a party designated by such Working Interest Owners who shall

distribute such proceeds to the Parties entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other Party's share of gas production without first giving such other Party sixty (60) days' notice of such intended sale.

6.5 Responsibility for Royalty Settlements. Any Party receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for the payment of all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances, and shall indemnify all Parties hereto, including Unit Operator, against any liability for such payment.

6.6 Royalty on Outside Substances. If any Outside Substances consisting of natural gases is injected into the Unitized Formation, One Hundred percent (100%) of any like substance contained in Unitized Substances subsequently produced and sold, or used for other than Unit Operations, shall be deemed to be a part of the Outside Substance so injected until the total volume deemed to be such Outside Substances equals the total volume of such Outside Substance so injected. If any Outside Substance which prior to injection is liquefied petroleum gas or other liquid hydrocarbons is injected into the Unitized Formation, ten percent (10%) of all Unitized Substances produced and sold after one year from the time the injection of such Outside Substance was commenced shall be deemed to be a part of the Outside Substance so injected until the total value of the production deemed to be such Outside Substance equals the total cost of the Outside Substance so injected. Such ten percent (10%) of the Unitized Substances deemed to be Outside Substances will be in addition to that which is being recovered for natural gases as hereinabove provided, if both liquefied petroleum gas or other liquid hydrocarbons and natural gases are injected. No payments shall be due or payable to Royalty Owners on substances produced from the Unitized Formation that are deemed to be Outside Substances.

ARTICLE 7

PRODUCTION AS OF THE EFFECTIVE DATE

7.1 Oil or Liquid Hydrocarbons in Lease Tanks. Unit Operator shall gauge or otherwise determine the amount of merchantable oil or other liquid hydrocarbons produced from the Unitized Formation that are in lease and power-oil tanks as of 7:00 a.m. on the Effective Date. Oil or other liquid hydrocarbons in treating vessels, separator equipment, and tanks below pipeline connections shall be considered to be merchantable. Any merchantable oil or other liquid hydrocarbons that are a part of or attributable to the prior allowable of the wells from which they were produced shall remain the property of the parties entitled thereto as if this agreement had not been entered into. Any such merchantable oil or other liquid hydrocarbons not promptly removed may be sold by Unit Operator for the account of the Working Interest Owners entitled thereto who shall pay all royalty, overriding royalty, production and other payments due thereon under the provisions of applicable leases or other contracts. Any oil or liquid hydrocarbons in excess of that attributable to the prior allowable of the wells from which they were produced shall be regarded as Unitized Substances produced from the Effective Date.

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

ARTICLE 8

USE OR LOSS OF UNITIZED SUBSTANCES

8.1 Use of Unitized Substances. Working Interest Owners may use or consume Unitized Substances for Unit Operations, including but not limited to the injection thereof into the Unitized Formation.

8.2 Royalty Payments. No royalty, overriding royalty, production, or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

ARTICLE 9

TRACTS TO BE INCLUDED IN UNIT

9.1 Qualification of Tracts. On and after the Effective Date and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit A that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

9.1.1 Tract Ownership. Each Tract as to which Working Interest Owners owning Ninety Percent (90%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning Seventy-Five percent (75%) or more of the Royalty Interest have become parties to this agreement.

9.1.2 Voting Interest. Each Tract as to which Working Interest Owners owning One Hundred Percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than Seventy-Five percent (75%) of the Royalty Interest have become parties to this agreement, and as to which (a) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, and as to which (b) Working Interest Owners having Ninety percent (90%) or more of the combined voting interests in all Tracts that meet the requirements of Section 9.1.1 have voted in favor of the inclusion of such Tract. For the purpose of this section 9.1.2, the voting interest of a Working Interest Owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Section 9.1.1 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Section 9.1.1.

9.1.3 Indemnity Agreement. Each Tract as to which Working Interest Owners owning less than Ninety percent (90%) of the Working Interest have become parties to this agreement,

regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (a) one or more of the Working Interest Owners in such tract including the Working Interest Owner who operates the Tract, who have become Parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered, or have obligated themselves to execute and deliver, an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this agreement, and which arise out of the inclusion of the Tract in the Unit Area; and as to which (b) Working Interest Owners having Ninety percent (90%) or more of the combined voting interest in all Tracts that meet the requirements of Section 9.1.1 and 9.1.2 have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. For the purpose of this 9.1.3, the voting interest of each Working Interest owner shall be equal to the ratio that its Unit Participation attributable to Tracts that qualify under Sections 9.1.1 and 9.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 9.1.1 and 9.1.2. Upon the inclusion of such a Tract in the Unit Area, the Unit Participation that would have been attributable to the non-subscribing owners of Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed, in proportion to their respective Working Interest in such Tract, to the Working Interest Owners in the Tract who have executed indemnity agreements.

9.2 Commitment of Interest to Unit. The execution of this agreement by a party shall commit all interests owned or controlled by such party in the Unit Area as of the date of execution, any additional interests acquired before the Effective Date, and any and all other interests acquired after the Effective Date.

9.3 Revision of Exhibits. If any of the Tracts described in Exhibit A fail to qualify for inclusion in the Unit Area, Unit

Operator shall recompute the Tract Participation of each of the qualifying Tracts, using the original basis of computation, and shall revise Exhibits A and B accordingly. Such revised exhibits shall be effective as of 7:00 a.m. on the Effective Date.

ARTICLE 10

TITLES

10.1 Removal of Tract from Unit Area. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 9 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area effective as of 7:00 a.m. on the first day of the calendar month in which the failure of title is finally determined unless within ninety (90) days after the date of final determination of the failure of title, the Tract qualifies under a Section of Article 9.

10.2 Revision of Exhibits. If a Tract is removed from the Unit Area because of failure of title, Unit Operator, subject to Section 5.2, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A and B accordingly. The revised exhibits shall be effective as of 7:00 a.m. on the first day of the calendar month in which such failure of title is finally determined.

10.3 Working Interest Titles. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.4 Royalty Interest Titles. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the Party whose title failed shall not be entitled to share hereunder with respect to such failed interest.

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

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

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

10.6 Payment of Taxes to Protect Title. The owner of surface rights to lands within the Unit Area, or severed mineral interests or Royalty Interests in such lands, or lands outside the Unit Area on which Unit Equipment is located, is responsible for the payment of any ad valorem taxes on all such rights, interests, or property, unless such owner and Working Interest Owners otherwise agree. If any ad valorem taxes are not paid by or for such owner when due, Unit Operator may, with approval of Working Interest Owners, at any time prior to tax sale, or expiration of period of redemption after tax sale, pay the tax, redeem such rights, interests, or property, and discharge the tax lien. Any such payment shall be an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due any delinquent taxpayer an amount sufficient to defray the costs of such payment or redemption, such withholding to be credited to Working Interest Owners. Such withholding shall be without prejudice to any other remedy available to Unit Operator or Working Interest Owners.

ARTICLE 11

EASEMENTS OR USE OF SURFACE

11.1 Grant of Easements. The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the land within

the Unit Area as may be reasonably necessary for unit Operations and the removal of Unitized Substances from the Unit Area including, but not limited to, the right of Working Interest Owners to utilize any non-producing or abandoned well-bores for injection purposes; however, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a plant site for water injection, gas injection, or gas processing.

11.2 Use of Water. Working Interest Owners shall have and are hereby granted free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner, unless otherwise agreed between the parties.

11.3 Surface Damages. Working Interest Owners shall pay the owner for damages to the soil, growing crops, timber, fences improvements, and structures on the Unit Area that result from Unit Operations in accordance with the terms and provisions applicable to each respective lease.

ARTICLE 12

ENLARGEMENTS OF UNIT AREA

12.1 Enlargements of Unit Area. The Unit Area may be enlarged from time to time to include acreage reasonably proven to be productive upon such terms as may be determined by Working Interest Owners including, but not limited to, the following:

(a) The acreage shall qualify under a Section of Article 9.

(b) The participation to be allocated to the acreage shall be fair and reasonable, considering all available information.

(c) There shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

12.2 Determination of Tract Participation. Unit Operator, subject to Section 5.2, shall determine the Tract Participation of

each Tract within the Unit Area as enlarged, and shall revise Exhibits A and B accordingly.

12.3 Effective Date. The effective date of any enlargement of the Unit Area shall be 7:00 a.m. on the first day of the calendar month following compliance with conditions for enlargement as specified by Working Interest Owners, and the filing for record of revised Exhibits A and B in the county or counties in which this agreement is recorded.

ARTICLE 13

TRANSFER OF TITLE -- PARTITION

13.1 Transfer of Title. Any conveyance of all or any part of any interest owned by any Party hereto with respect to any Tract shall be made expressly subject to this agreement. No change of title shall be binding upon Unit Operator, or upon any Party hereto other than the Party so transferring, until 7:00 a.m. on the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy, or a certified copy, of the recorded instrument evidencing such change in ownership.

13.2 Waiver of Rights to Participation. Each party hereto agrees that during the existence of this agreement, it will not resort to any action to partition the Unitized Formation or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

13.3 No Cross-Conveyance Intended. Notwithstanding any provision to the contrary herein, the execution of this Agreement is not intended to and shall not be deemed to constitute a cross-conveyance of interest in the Unit Area between the parties hereto.

ARTICLE 14

RELATIONSHIP TO PARTIES

14.1 No Partnership. The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. It is not the intention of the Parties that this Agreement is made or intended for the benefit of third Parties. This agreement is not intended to create, and shall not be construed to create, an association, agency, joint venture, co-

venture, principal or trust relationship, or to impose a partnership duty, obligation, or liability with regard to any one or more of the Parties hereto. Each Party hereto shall be individually responsible for its own obligations as herein provided.

14.2 No Joint Refining or Marketing. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any joint refining or marketing of Unitized Substances.

14.3 Royalty Owners Free of Costs. This agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner the obligation to pay Unit Expense unless such Royalty Owner is otherwise so obligated.

14.4 Information to Royalty Owners. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Laws and Regulations. This agreement shall be governed and determined by the laws of the State of New Mexico and shall be subject to all applicable federal, state, and municipal laws, rules, regulations, and orders.

ARTICLE 16

FORCE MAJEURE

16.1 Force Majeure. All obligations imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a labor dispute, fire, war, civil disturbance, act of God; by federal, state, or municipal laws; by any rule, regulation, or order of a governmental agency; by inability to secure materials; or by any other cause or causes, whether similar or dissimilar, beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto

shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

ARTICLE 17

EFFECTIVE DATE

17.1 Effective Date. This agreement shall become binding upon each Party as of the date such Party signs the instrument by which it becomes a Party hereto and, unless sooner terminated as provided in Section 17.2, shall become effective as to qualified Tracts at the time and date as determined by the Unit Operator, and set forth in a certificate filed for record by Unit Operator in Lea County, New Mexico. This certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 9 and the book and page in which a counterpart of this Agreement has been recorded.

This certificate shall not be filed until after the following requirements have been met:

(a) Tracts comprising seventy-five percent (75%) or more of the Unit Area as shown on the original Exhibit A-1 have qualified under the provisions of Section 9.1 of Article 9.

(b) At least one counterpart of this Agreement shall be filed for record by the Unit Operator in Lea County, New Mexico.

17.2 Ipsa Facto Termination. If the requirements of Section 17.1 are not accomplished on or before January 1, 1995, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto two or more Working Interest Owners owning a combined Unit Participation of at least Seventy-Five percent (75%) have become parties to this agreement and Working Interest Owners owning Fifty-One (51%) or more of that percent have decided to extend the termination date for a period not to exceed One year. If the termination date is so extended and the requirements of Section 17.1 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect.

For the purpose of this section, Unit Participation shall be as calculated on the basis of Tract participations shown on the original Exhibit A.

ARTICLE 18

TERM

18.1 Term. The term of this agreement shall be for the time that Unitized Substances are produced in paying quantities or other Unit Operations are conducted without a cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

18.2 Termination by Working Interest Owners. This agreement may be terminated by two or more Working Interest Owners owning a combined Unit Participation of Seventy-Five percent (75%) or more whenever such Working Interest Owners determine that Unit Operations are no longer profitable or feasible.

18.3 Effect of Termination. Upon termination of this agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, and Unit Operations shall cease. Each oil and gas lease and other agreement covering lands within the Unit Area shall remain in force as to lands within the unit for sixty (60) days after the date on which this agreement terminates, and for such further period as is provided by the lease or other agreement.

18.4 Salvaging Equipment Upon Termination. If not otherwise granted by the leases or other instruments affecting each Tract, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after the date of termination of this agreement within which to salvage and remove Unit Equipment.

18.5 Certificate of Termination. Upon termination of this agreement, Unit Operator shall file for record in the county or counties in which the land affected is located a certificate that this agreement has terminated, stating its termination date.

ARTICLE 19

EXECUTION

19.1 Original, Counterpart, or Other Instrument. An owner of Oil and Gas Rights may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all Parties had signed the same instrument.

19.2 Joinder in Dual Capacity. Execution as herein provided by any Party as either a Working Interest Owner or a Royalty Owner shall commit all interests in the Unit Area owned or controlled by such Party.

ARTICLE 20

GENERAL

20.1 Action by Working Interest Owners. Except as otherwise provided in this agreement, any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.2 Liens and Security Interests. Unit Operator shall have a lien upon and a security interest in the interests of Working Interest Owners in the Unit Area and Working Interest Owners shall have a lien upon and a security interest in the interest of Unit Operator in the Unit Area as provided in the Unit Operating Agreement.

ARTICLE 21

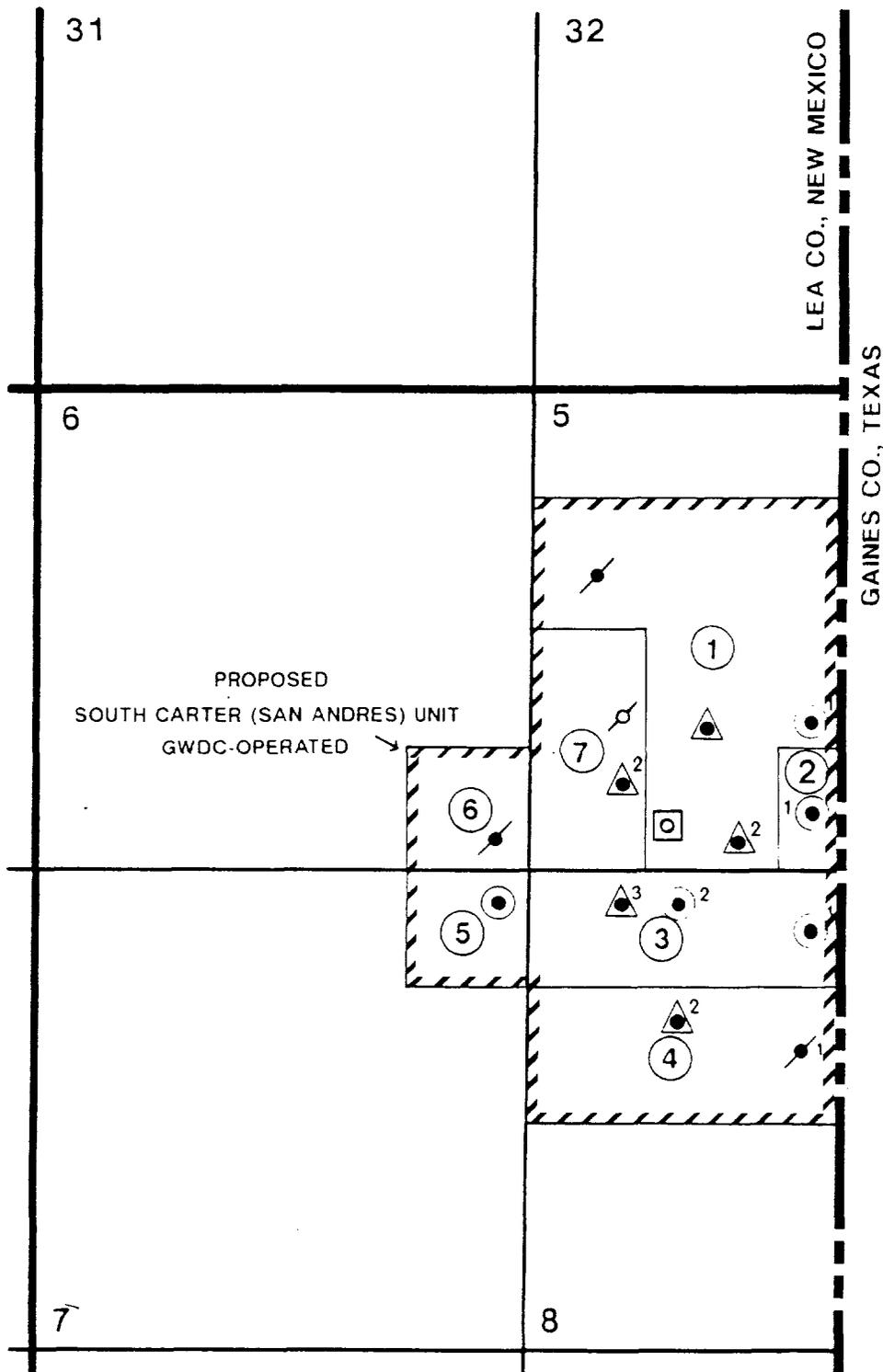
SUCCESSORS AND ASSIGNS

21.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interest covered hereby.

EXHIBIT "A"
 TO
 UNIT AGREEMENT
 SOUTH CARTER UNIT
 LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>TRACT DESCRIPTION</u>	<u>TRACT ACREAGE</u>	<u>UNIT TRACT PARTICIPATION</u>
1	Lots 4 & 5, S/2 NW/4 and E/2 SW/4 of Section 5, T-18-S, R-39-E, N.M.P.M. (Effie Carter Lease)	212	.307820889
2	Lot 6 of Section 5, T-18-S, R-39-E, N.M.P.M. (Burton Federal Lease)	26	.062275098
3	Lot 1 and the N/2 NW/4 of Section 8, T-18-S, R-39-E, N.M.P.M. (S. Johnson Lease)	106	.468871443
4	The North 120.0 acres of a 318.7 acre tract being lots 2, 3, 4, S/2 NW/4 and SW/4 of Section 8, T-18-S, R-39-E, N.M.P.M. (McQuien Lease)	120	.071405599
5	All of the NE/4 NE/4 of Section 7, T-18-S, R-39-E, N.M.P.M. (Carter "A" Lease)	40	.019597026
6	All of the SE/4 SE/4 of Section 6, T-18-S, R-39-E, N.M.P.M. (Johnson "A" Lease)	40	.012481269
7	All of the W/2 SW/4 of Section 5, T-18-S, R-39-E, N.M.P.M. (S.P. Johnson Lease)	80	.057548677

EXHIBIT "B" TO UNIT AGREEMENT



LEGEND

- UNIT PRODUCER
- ◻ PRODUCER TO BE DRILLED
- ▲ INJECTOR
- TRACT NUMBER
- ⊘ TEMPORARILY ABANDONED
TO BE MADE A PRODUCER OR P&A
- ⊙ PLUGGED PRODUCER

GREAT WESTERN DRILLING COMPANY
SOUTH CARTER (SAN ANDRES) UNIT Lea County, New Mexico
<p>2000 1000 0 2000 4000</p> <p>Scale in Feet</p>

UNIT OPERATING AGREEMENT
SOUTH CARTER (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO
JANUARY 10, 1994

Exhibit "C"

UNIT OPERATING AGREEMENT

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UNIT OPERATING AGREEMENT

SOUTH CARTER (SAN ANDRES) UNIT

THIS AGREEMENT, entered into as of the _____ day of _____, 1994 by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto,

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "Unit Agreement, South Carter (San Andres) Unit, Lea County, New Mexico", herein referred to as "Unit Agreement" which among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined,

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement

2.1.2 Exhibit C attached hereto, is a schedule showing the Unit Participation of each Working Interest Owner. Exhibit C or a revision thereof, shall not be conclusive as to the information therein, except same may be used as showing the Unit Participation of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to Unit Operations.

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

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 Specific Authority and Duties. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation including the type or types of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletion and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty Five Thousand Dollars (\$25,000.00); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Ten Thousand Dollars (\$10,000.00) or more, provided that Unit Operator shall provide Working Interest Owners the same opportunity to bid on Unit Equipment as Unit Operator may provide to any third parties.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than Unit Operator, request such an audit, and
- (d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners. No meeting shall be called on less than Fifteen (15) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two (2) or more Working Interest Owners having a combined voting interest of at least Fifty-One percent (51%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within Fifteen (15) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.

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

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

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

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Great Western Drilling Company is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time by giving written notice thereof to Working Interest Owners. If Unit Operator terminates its legal existence, no longer owns an interest in the Unit Area, or is no longer capable of serving as Unit Operator, Unit Operator shall be deemed to have resigned without any action by Working Interest Owners, except the selection of a successor. Unit Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt, or is placed in receivership, by the affirmative vote of two (2) or more Working Interest Owners having 90% of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective until 7:00 a.m. on the first day of the calendar month following the expiration of 90 days after the giving of notice of resignation by Unit Operator or action by the Working Interest Owners to remove Unit Operator, unless a successor Unit Operator has been selected and assumes the duties of Unit Operator at an earlier date. Unit Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Working Interest Owner. A change of corporate name or structure of Unit Operator or transfer of Unit Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Unit Operator.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having Fifty-one percent (51%) or more of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7

AUTHORITY AND DUTIES OF UNIT OPERATORS

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of reasonable judgement, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the liens and security interests of Working Interest Owners and Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.

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

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Five Thousand Dollars (\$25,000.000) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

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

ARTICLE 8

TAXES

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

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

ARTICLE 8

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall:

- (a) comply with the Workmen's Compensation Laws of the State
- (b) carry Employer's Liability and other insurance required by the laws of the State, and
- (c) provide other insurance as set forth in Exhibit E.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Wells and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Unit Operator determines is necessary or desirable for conducting Unit Operations.

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

10.2 Inventory and Evaluation of Personal Property. Unit Operator shall at Unit Expense inventory and evaluate, as determined by Unit Operator, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit D except, upon determination of Unit Operator, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in

the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be negotiated by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

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

11.3 Advanced Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within thirty (30) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Liens and Security Interests.

11.5.1 Grant of Lien. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the maximum lawful rate. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The

bringing of a suit and the obtaining of judgement by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners to secure payment of Unit Operator's proportionate share of expenses.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the other Working Interest Owners agree, upon request by Unit Operator, to pay their proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Liens and Security Interests." If

the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collection of the Unit Expense chargeable to the carved-out interest.

11.8. Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a Party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participation at the time the Unitized Substances were produced. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12

NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner

satisfactory to Unit Operator so that the production of Unitized Substances will not be affected adversely.

12.2 Multiple Completions. Except as otherwise agreed by Working Interest Owners, none of the wells taken over by Unit Operator on or after the Effective Date hereof shall be completed in formations other than the Unitized Formation.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit C, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

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

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as

creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Ten Thousand Dollars (\$10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as amended as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue

Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interest, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation

or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other

interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations, the cost of which shall be an item of Unit Expense.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective.

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit

Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreement upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of Separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be an item of Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other

instruments agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

ARTICLE 23

GENERAL PROVISIONS

23.1 Waiver of Rights to Partition. Each party here to covenants that, during the existence of this agreement, it will not resort to any action at law or in equity to partition the Unit Area or the Unit Equipment and to have set aside to it in severalty its interest therein, and to that extent waives the benefits of all laws authorizing such partition.

23.2 Singular and Plural - Gender. Unless the context otherwise clearly indicates, words used in the singular include the plural, plural includes the singular, and the neuter gender includes the masculine and feminine.

23.3 Previous Operating Agreements. This Unit Operating Agreement, insofar as it applies to the Unitized Formation, all wells completed therein and situated in the Unit Area, and all operations contemplated hereunder, supersedes all previous operating agreements entered into by it or binding upon the parties hereto; provided, however, that such prior operating agreements shall continue in force insofar as they cover and apply to operations not provided for hereunder.

23.4 Compliance with Laws: Accuracy of Records. Unit Operator agrees to make a bonafide effort to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf of any one or more of the parties to this agreement under the provisions of this agreement and/or any

amendments to it, but Unit Operator will not be liable to any other party hereto for any loss or damages sustained by any such other party as a result of Unit Operator's failure to comply with all such laws and regulations. Unit Operator states that all financial settlements, billings, and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, but Unit Operator will not be liable to any other party hereto for any loss or damage sustained by any such other party as a result of any error made by Unit Operator in any of such statements, billings, and/or reports. Unit Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where, despite its good faith efforts, it may not have complied with any law or regulation applicable to the activities carried out by it.

23.5 Certain Regulations and Refund Obligations. All parties agree to release the Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of any laws, rules, rulings, regulations, or orders of the Department of Energy, as well as such rules, etc., of the Department of the Treasury, and predecessor or successor agencies of either, to the extent Unit Operator's interpretations or application of such laws, rules, rulings, regulations or orders are made in good faith. All Working Interest Owners further agree to reimburse Unit Operator, upon demand, for their proportionate part (including royalty) of any amounts (including interest or penalty) which Unit Operator may be required to refund, rebate, or pay as a result of any incorrect interpretation or application of any laws, rules, rulings, regulations, or orders.

23.6 Taking Production in Kind. Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of

production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Unit Operator's surface facilities which it uses.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of production from the Unit Area, Unit Operator shall, subject to the revocation at will by the party owning such production, sell such production to others at any time and from time to time, for the account of the non-taking party at the same price at which Unit Operator's production is sold. Any such sale by Unit Operator shall be subject always to the right of the owner of production to exercise at any time its right to take in kind, or separately dispose of, its share of oil not previously delivered to a purchaser. Any sale by Unit Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one year.

In the event one or more parties' separate disposition of any gas produced causes split-stream deliveries to separate pipelines and/or deliveries which on a day to day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties existing or to be executed at such time.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates shown opposite their respective signatures.

WORKING INTEREST OWNERS

<u>Date</u> (Operator)	<u>Date</u> <u>Signed</u>	Attest, if a Corporation or Witness, if an indivi- dual _____
GREAT WESTERN DRILLING CO.		
By: <u>Alan T. Davis</u> ALAN T. DAVIS PRESIDENT	<u>1/27/94</u>	<u>Charles J. [Signature]</u> Assistant Secretary

(Non-Operator)

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

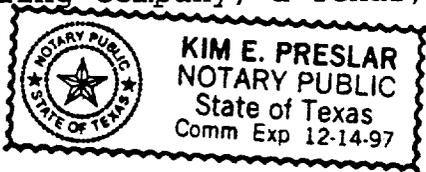
By: _____

Name: _____

Title: _____

THE STATE OF Texas §
COUNTY OF Midland §

This instrument was acknowledged before me on this 27th day of January, 1994, by ALAN T. DAVIS, PRESIDENT of Great Western Drilling Company, a Texas, on behalf of said corporation.



Kim E. Preslar
Notary Public
My Commission Expires: 12/14/97

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on this _____ day of _____, 1994, by _____ of _____ a _____ (state of incorporation) corporation, on behalf of said corporation.

Notary Public
My Commission Expires: _____

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on this _____ day of _____, 1994, by _____ as _____ of _____ a _____ (state of incorporation) corporation, on behalf of said corporation.

Notary Public
My Commission Expires: _____

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on this _____ day of _____, 1994, by _____ of _____ a _____ corporation, on behalf of said corporation.

Notary Public
My Commission Expires: _____

THE STATE OF _____ §
COUNTY OF _____ §

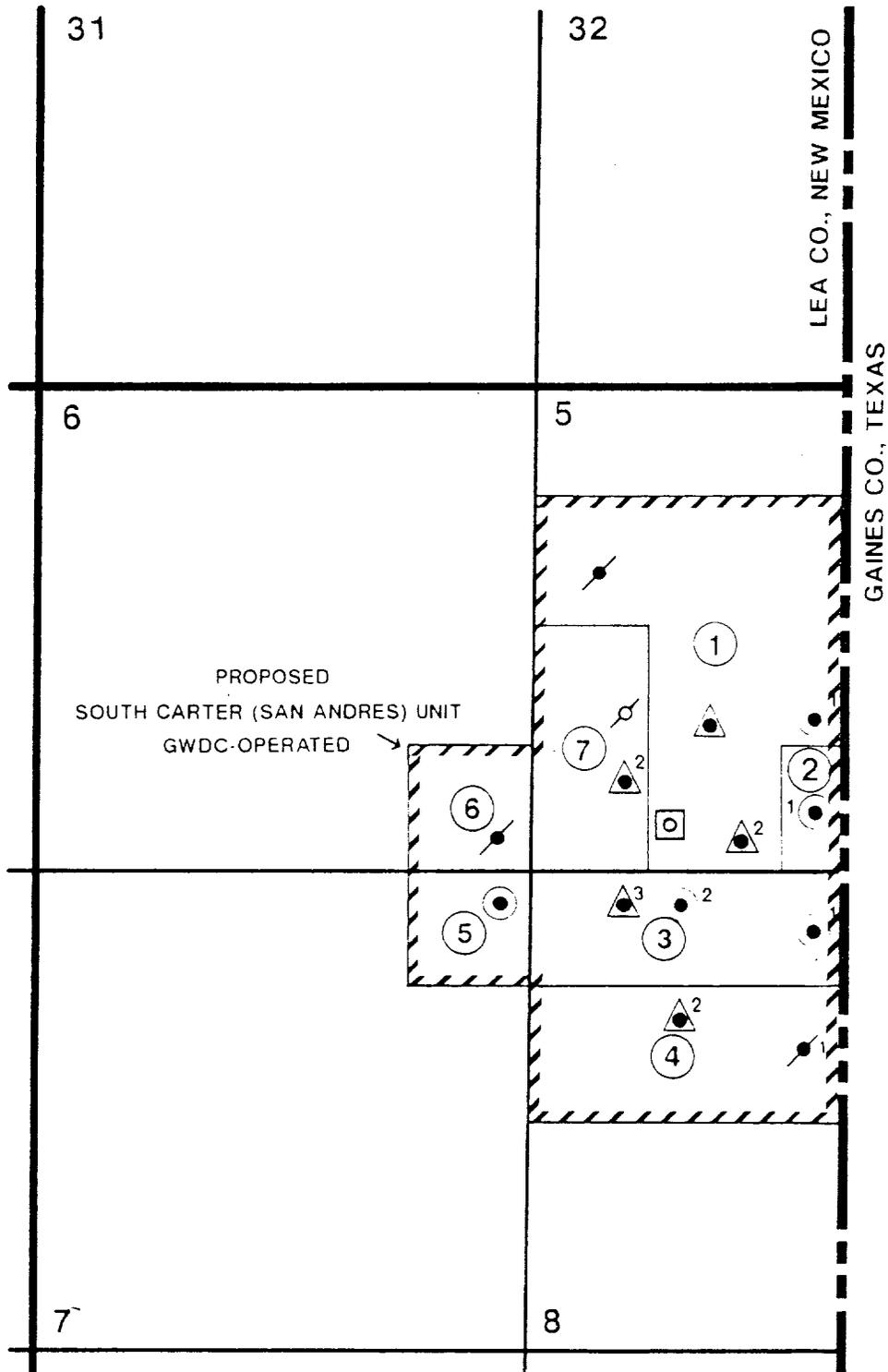
This instrument was acknowledged before me on this _____ day of _____, 1994, by _____ of _____ a _____ (state of incorporation) corporation, on behalf of said corporation.

Notary Public
My Commission Expires: _____

EXHIBIT "A"
 TO
 UNIT AGREEMENT
 SOUTH CARTER UNIT
 LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>TRACT DESCRIPTION</u>	<u>TRACT ACREAGE</u>	<u>UNIT TRACT PARTICIPATION</u>
1	Lots 4 & 5, S/2 NW/4 and E/2 SW/4 of Section 5, T-18-S, R-39-E, N.M.P.M. (Effie Carter Lease)	212	.307820889
2	Lot 6 of Section 5, T-18-S, R-39-E, N.M.P.M. (Burton Federal Lease)	26	.062275098
3	Lot 1 and the N/2 NW/4 of Section 8, T-18-S, R-39-E, N.M.P.M. (S. Johnson Lease)	106	.468871443
4	The North 120.0 acres of a 318.7 acre tract being lots 2, 3, 4, S/2 NW/4 and SW/4 of Section 8, T-18-S, R-39-E, N.M.P.M. (McQuien Lease)	120	.071405599
5	All of the NE/4 NE/4 of Section 7, T-18-S, R-39-E, N.M.P.M. (Carter "A" Lease)	40	.019597026
6	All of the SE/4 SE/4 of Section 6, T-18-S, R-39-E, N.M.P.M. (Johnson "A" Lease)	40	.012481269
7	All of the W/2 SW/4 of Section 5, T-18-S, R-39-E, N.M.P.M. (S.P. Johnson Lease)	80	.057548677

EXHIBIT "B" TO UNIT AGREEMENT



LEGEND

- UNIT PRODUCER
- ◻ PRODUCER TO BE DRILLED
- ▲ INJECTOR
- TRACT NUMBER
- ⊗ TEMPORARILY ABANDONED
TO BE MADE A PRODUCER OR P&A
- ⊘ PLUGGED PRODUCER

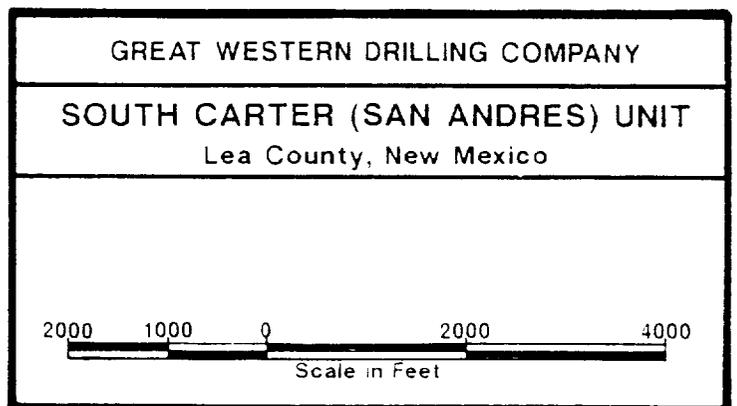


EXHIBIT "C"
TO UNIT OPERATING AGREEMENT
SOUTH CARTER UNIT
LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER</u>	<u>UNIT WORKING INTEREST</u>
Great Western Drilling Company P.O. Box 1659 Midland, Texas 79702	.5451359
Davoil, Inc. P.O. Box 122269 Fort Worth, Texas 76121	.2958555
Hilseweck Partnership P.O. Box 12749 Dallas, Texas 75225	.0129727
Helen M. Hilseweck P.O. Box 12749 Dallas, Texas 75225	.0129727
Tracey M. Hilseweck 3806 Fairfax Avenue Dallas, Texas 75209	.0086483
Alice H. Ball 785 Overhill Court NW Atlanta, Georgia 30328	.0086485
Barbara H. Wong 1139 Waieli Street Honolulu, Hawaii 96821	.0086485
Yates Petroleum Corp. 207 South Fourth Street Artesia, New Mexico 88210	.0242720
Cummings Royalty Acquisition Co., Inc. 4940 Broadway, Suite 335 San Antonio, Texas 78209	.0454046
Estate of F.J. Danglade c/o June E. Speight Drawer 1687 Lovington, New Mexico 88260	.0133900
Stelbar Production Company 155 N. Market, Suite 500 Wichita, Kansas 67202	.0044543
Marshall R. Young Oil Co. 750 West Fifth Street Fort Worth, Texas 76102	.0171474
Roy G. Barton, Jr., Trustee D/T Roy G. Barton & Opal Barton Revocable Trust P.O. Box 978 Hobbs, New Mexico 88241	.0024496

EXHIBIT "C-1"
 TO OPERATING AGREEMENT
 SOUTH CARTER UNIT
 LEA COUNTY, NEW MEXICO

<u>TRACT NUMBER</u>	<u>WORKING INTEREST OWNER</u>	<u>SUMMARY OF UNIT WORKING INTEREST BY TRACT</u>
1	Great Western Drilling Company	.1698640
	Davoil, Inc.	.0922643
	Hilseweck Partnership	.0048097
	Helen M. Hilseweck	.0048097
	Tracey M. Hilseweck	.0032064
	Alice H. Ball	.0032065
	Yates Petroleum Corp.	.0096190
	Barbara H. Wong	.0032065
	Cummings Royalty Acquisition Co., Inc.	.0168340
2	Great Western Drilling Company	.0401525
	Davoil, Inc.	.0221226
3	Great Western Drilling Company	.2587367
	Davoil, Inc.	.1405366
	Hilseweck Partnership	.0073261
	Helen M. Hilseweck	.0073261
	Tracey M. Hilseweck	.0048840
	Alice H. Ball	.0048841
	Yates Petroleum Corp.	.0146520
	Barbara H. Wong	.0048841
	Cummings Royalty Acquisition Co., Inc.	.0256414
4	Great Western Drilling Company	.0312313
	Davoil, Inc.	.0160545
	Hilseweck Partnership	.0008369
	Helen M. Hilseweck	.0008369
	Tracey M. Hilseweck	.0005579
	Alice H. Ball	.0005579
	Barbara H. Wong	.0005579
	Cummings Royalty Acquisition Co., Inc.	.0029292
	Estate of F.J. Danglade c/o June E. Speight	.0133900
	Stelbar Production Company	.0044543
	5	Marshall R. Young Oil Co.
Roy G. Barton, Jr., Trustee		.0024496
6	Great Western Drilling Company	.0080474
	Davoil, Inc.	.0044338
7	Great Western Drilling Company	.0371051
	Davoil, Inc.	.0204436

EXHIBIT " D "

Attached to and made a part of Unit Operating Agreement dated
1994, S. Carter San Andres Unit, Lea County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at NationsBank N.A., Midland, Texas on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

1 5. Audits

2
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
12 at the expense of those Non-Operators approving such audit.

13
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15
16 6. Approval By Non-Operators

17
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of
19 this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

22
23
24 II. DIRECT CHARGES

25
26 Operator shall charge the Joint Account with the following items:

27
28 1. Ecological and Environmental

29
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.

33
34 2. Rentals and Royalties

35
36 Lease rentals and royalties paid by Operator for the Joint Operations.

37
38 3. Labor

39
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of
41 Joint Operations.

42
43 (2) Salaries of First Level Supervisors in the field.

44
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are
46 excluded from the overhead rates.

47
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly
49 employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

50
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

59
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
61 Paragraph 3A of this Section II.

62
63 4. Employee Benefits

64
65 Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement,
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
68 most recently recommended by the Council of Petroleum Accountants Societies.

1 5. Material

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be
6 avoided.

7
8 6. Transportation

9
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25
26 7. Services

27
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33
34 8. Equipment and Facilities Furnished By Operator

35
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed Eight percent (8 %) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41
42 B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45
46 9. Damages and Losses to Joint Property

47
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator.

52
53 10. Legal Expense

54
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section
60 I, Paragraph 3.

61
62 11. Taxes

63
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.

1 12. Insurance

2
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.
7

8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.
12

13 14. Communications

14
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.
18

19 15. Other Expenditures

20
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint
23 Operations.
24
25

26 III. OVERHEAD

27
28 1. Overhead - Drilling and Producing Operations

29
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge
31 drilling and producing operations on either:

- 32
33 Fixed Rate Basis, Paragraph 1A, or
34 Percentage Basis, Paragraph 1B
35

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.
42

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

- 45
46 shall be covered by the overhead rates, or
47 shall not be covered by the overhead rates.
48

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

- 52
53 shall be covered by the overhead rates, or
54 shall not be covered by the overhead rates.
55

56 A. Overhead - Fixed Rate Basis

57
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59
60 Drilling Well Rate \$ 4000.00 ;
61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 400.00
64 Injection Well Rate \$ 400.00

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

66
67 (a) Drilling Well Rate

68
69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:
- (a) Development
- _____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.
- (b) Operating
- _____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.
- (2) Application of Overhead - Percentage Basis shall be as follows:

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of \$ _____ :

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

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

3. Catastrophe Overhead

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{3}{8}$ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

1 pound Oil Field Haulers Association interstate truck rate shall be used.

2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.

6
7 (d) Macaroni tubing (size less than 2 $\frac{3}{8}$ inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10
11 (2) Line Pipe

12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.

16
17 (b) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
21 Ohio.

22
23 (c) Line pipe 24 inch OD and over and $\frac{3}{4}$ inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.

26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39
40 B. Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43
44 (1) Material moved to the Joint Property

45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material.

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61
62 C. Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.

1 (2) Condition D

2
3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material
5 under procedures normally used by Operator without prior approval of Non-Operators.

6
7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be
9 priced at used line pipe prices.

10
11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.
13 Upset tubular goods shall be priced on a non upset basis.

14
15 (3) Condition E

16
17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under
18 procedures normally utilized by Operator without prior approval of Non-Operators.

19
20 D. Obsolete Material

21
22 Material which is serviceable and usable for its original function but condition and/or value of such Material
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by
24 the Parties. Such price should result in the Joint Account being charged with the value of the service
25 rendered by such Material.

26
27 E. Pricing Conditions

28
29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in
33 Section III, Paragraph I.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year
35 by the Council of Petroleum Accountants Societies.

36
37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down
38 price of new Material.

39
40 3. Premium Prices

41
42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use
48 and acceptable to Operator.

49
50 4. Warranty of Material Furnished By Operator

51
52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint
53 Account until adjustment has been received by Operator from the manufacturers or their agents.

54
55
56 V. INVENTORIES

57
58 The Operator shall maintain detailed records of Controllable Material.

59
60 1. Periodic Inventories, Notice and Representation

61
62 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice
63 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that
64 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an
65 inventory shall bind Non-Operators to accept the inventory taken by Operator.

66
67 2. Reconciliation and Adjustment of Inventories

68
69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

2
3 **3. Special Inventories**

4
5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases
8 involving a change of Operator, all Parties shall be governed by such inventory.

9
10 **4. Expense of Conducting Inventories**

11
12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties.

14
15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.
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EXHIBIT "E"

TO

UNIT AGREEMENT

SOUTH CARTER UNIT

LEA COUNTY, NEW MEXICO

- A. The Operator, during the term of this Agreement, shall carry the following insurance to cover the risk of accidents and/or damages to persons and/or property which may occur in the course of operations conducted under this Agreement, a proportionate part of the premiums on such insurance, determined on some equitable basis consistent with Operator's accounting practice, to be charged to the Joint Account:
1. Workmen's Compensation Insurance - Statutory
 2. Employer's Liability Insurance - limits of \$500,000
 3. Comprehensive General (Public) Liability Insurance in the amount of \$1,000,000 combined single limit
 4. Automobile Insurance in the amount of \$1,000,000 combined single limit
 5. Excess Liability Insurance (Umbrella Liability) in the amount of \$1,000,000
- B. It is understood and agreed that Operator is not a warrantor of the financial responsibility of the Insurer with whom such Insurance is carried, and that except for willful negligence Operator shall not be liable to Non-Operator for any loss suffered on account of the insufficiency of the Insurance carried or of the Insurers with whom carried. Operator will, however, exercise its best judgement and good faith in selecting the Insurers with whom Insurance is carried.
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