

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

SHAHARA STATE UNIT AREA  
LEA COUNTY, NEW MEXICO

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

EXHIBIT 1

REV. 1/92 (7/97)

09638-00100/PCOO/AJ1204.2

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UNIT AGREEMENT  
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LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of July, 1997, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH THAT:

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 Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stat. 1978 Annot.) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Shahara State Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

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

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in the effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formations" shall be the Grayburg/San Andres formations underlying the Unit Area, the vertical limits of which extend from approximately 4100 feet below the surface to a lower depth of 5500 feet below the surface.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
  - (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.
  - (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
  - (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
  - (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
  - (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
  - (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) and (n) There is no distinction between "Phase I" and "Phase II" for production of Unitized Substances from the Unit Area regardless of the subsequent use of those terms in this Agreement.

- (o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, Shahara State Unit Area  
Lea County, New Mexico".
- (p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 320 acres, more or less.

Exhibit "A" to the extent known to Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

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

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Phase II Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

(3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

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

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

**SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES:** All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

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

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

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

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

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefor, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: Tract Participation was established by all owners of working and overriding royalty interests in a voluntary working interest unit (letter) agreement dated September 5, 1985 as follows:

<u>Land Description</u>	<u>Number of Acres</u>	<u>Tract Participation</u>
N $\frac{1}{4}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ (Talbert Lease)	120	59.0%
SW $\frac{1}{4}$ SW $\frac{1}{4}$ (State 16 Lease)	40	31.9%
NW $\frac{1}{4}$ (Pair Lease)	<u>160</u>	<u>9.1%</u>
	320	100.0%

Those same Tract Participations are carried forward in this Agreement.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered 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 which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement,

and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

(d) Within Sixty (60) days after the requirements for commencement of Phase II or III have not been met, the Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II or Phase III.

**SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES:** All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto 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 force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

**SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE:** Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil

from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

**SECTION 16. ROYALTY SETTLEMENT:** The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlements for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recover, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

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

**SECTION 17. RENTAL SETTLEMENT:** Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

**SECTION 18. CONSERVATION:** Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

**SECTION 19. DRAINAGE:** The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

**SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED:** The terms, conditions and provision of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

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

(b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be

deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.

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

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

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

**SECTION 21. COVENANTS RUN WITH LAND:** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

**SECTION 22. EFFECTIVE DATE AND TERM:** This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

(a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Phase II Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Phase II Royalty Interest in said Unit Area; and

(b) The approval of this agreement by the Commissioner and the Commission; and

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and

(d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before December 31, 1998, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Phase II Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Phase II Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

**SECTION 23. APPEARANCES:** Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

**SECTION 24. NOTICES:** All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

**SECTION 25. NO WAIVER OF CERTAIN RIGHTS:** Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

**SECTION 26. LOSS OF TITLE:** In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same 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.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

**SECTION 27. NONJOINER AND SUBSEQUENT JOINER:** As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for

Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Phase II Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

**SECTION 28. COUNTERPARTS:** This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

**SECTION 29. JOINDER COMMITMENT:** Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

**SECTION 30. TAXES:** Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

**SECTION 31. 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 the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

**SECTION 32. NO PARTNERSHIP:** The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

**SECTION 33. CORRECTION OF ERRORS:** It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of fifty percent (50%) or more and the Commissioner.

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

OPERATOR SHAHARA OIL, LLC

ATTEST:

Shallia Marshall

Date: 07/21/97

BY: Perry C. Hughes

207 West McKay  
Carlsbad, New Mexico 88220

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

\_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
BY: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
BY: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Date: \_\_\_\_\_

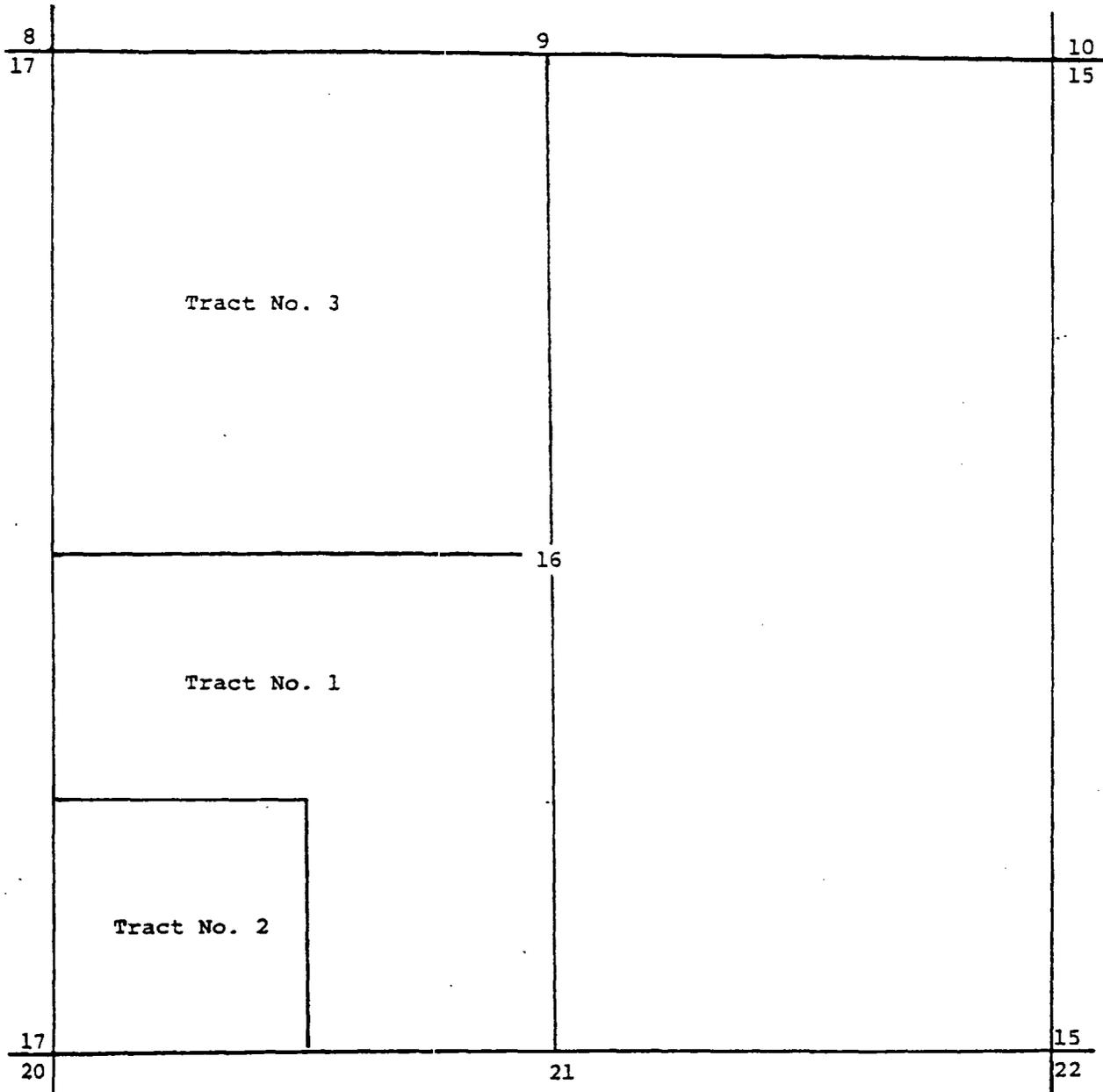
\_\_\_\_\_  
BY: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

EXHIBIT A

Section 16, Township 17 South, Range 33 East N.M.P.M.

Lea County, New Mexico





SUMMARY OF UNIT OWNERS AND AMOUNTS (NRI)

State of New Mexico	.1250000 RI
Phillips Petroleum Company	.0571797 ORI
Norwest Bank Texas, NA, Wichita Falls, Independent Executor of the Gaylord F. Swarts Estate	.0040332 ORI
Norwest Bank Texas, NA, Wichita Falls, Independent Executor of the Dottie M. Swarts Estate	.0040332 ORI
BarMar, Inc.	.0015272 ORI
Barry L. Antwell	.0015272 ORI
B.G. Davis	.0015272 ORI
R.M. Williams	.0015272 ORI
JLW Management Company	.0034362 ORI
Perry L. Hughes	.0199374 ORI
Petco Ltd.	.0087227 PF
Rowland Curtis McBroom	.0007465 ORI
Ogden Sharon Hudnall	.0088757 WI
Ogden Sharon Hudnall Trust No. 2	.0088757 WI
Lometa Hudnall Cox	.0088757 WI
Lometa Hudnall Cox Trust No. 2	.0088757 WI
Mountaineer Limited Partnership	.6985345 WI
Dale McCarter	<u>.0367650 WI</u>
	1.0000000

EXHIBIT C

Tract No.	Acres	WI Owners and Amounts	Tract Participation
1	120	Mountaineer Limited Partnership	95.0%
		Dale McCarter	5.0%
			100.0%
2	40	Mountaineer Limited Partnership	95.0%
		Dale McCarter	5.0%
			100.0%
3	160	Ogden Sharon Hudnall	12.5%
		Lometa Hudnall Cox	12.5%
		Ogden Sharon Hudnall Trust No. 2	12.5%
		Lometa Hudnall Cox Trust No. 2	12.5%
		Mountaineer Ltd. Partnership	47.5%
		Dale McCarter	2.5%
			100.0%
			100.0%

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shalara State 16 Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 9th day of August, 1995.

PHILLIPS PETROLEUM COMPANY

*J. S. Welin*

(Signature)

J. S. Welin, Attorney-in-Fact  
(Printed Name)

STATE OF )  
                  ) ss.  
COUNTY OF )

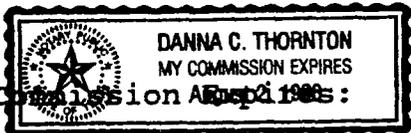
The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1995, by \_\_\_\_\_.

My Commission Expires:

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

STATE OF TEXAS )  
                  ) ss.  
COUNTY OF ECTOR )

The foregoing instrument was acknowledged before me this 9th day of August, 1995, by J. S. Welin, Attorney-in-Fact, of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of the corporation.



My Commission Expires: 8-2-96

*Danna C. Thornton*  
Notary Public

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25 day of July, 1997,

[Signature] BARMAR, INC  
(Signature) President

BARRY ANTWEIL  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_.

My Commission Expires: \_\_\_\_\_ Notary Public

STATE OF New Mexico  
COUNTY OF LEA

The foregoing instrument was acknowledged before me this 26 day of JULY, 1997, by BARRY ANTWEIL, of BARMAR, INC., a New Mexico corporation, on behalf of the corporation.

My Commission Expires:  
September 25, 1999

[Signature]  
Notary Public

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25 day of July, 1997.

[Handwritten Signature]  
(Signature)

BARRY Antweil  
(Printed Name)

STATE OF New Mexico  
COUNTY OF LEA

The foregoing instrument was acknowledged before me, this 26 day of July, 1997, by BARRY ANTWEIL.

My Commission Expires:  
September 25, 1999

[Handwritten Signature]  
Notary Public

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:  
\_\_\_\_\_

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 31 day of July, 1997.

B.G. Davis  
(Signature)

B.G. Davis  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 30 day of July, 1997, by B.G. DAVIS.

[Signature]  
Notary Public

My Commission Expires:

September 25, 1999

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

RECEIVED

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25<sup>th</sup> day of JULY, 1997.

R.M. Williams  
(Signature)

R. M. WILLIAMS  
(Printed Name)

STATE OF New Mexico  
COUNTY OF Lea

The foregoing instrument was acknowledged before me this 26 day of July, 1997, by R.M. WILLIAMS.

Jim S. Law  
Notary Public

My Commission Expires:  
September 25, 1999

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 24<sup>TH</sup> day of JULY, 1997.

For JLW MGMT CORP.  
INTEREST

Perry L Hughes  
(Signature)

Perry L. Hughes  
(Printed Name)



New Mexico  
Eddy

The foregoing instrument was acknowledged before me this 24<sup>th</sup> day of July, 1997, by Perry L. Hughes.

My Commission Expires:  
November 06, 2000

Thalia Marshall  
Notary Public

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:  
\_\_\_\_\_

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

RATIFICATION OF UNIT AGREEMENT

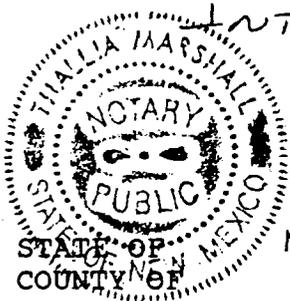
The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 24<sup>TH</sup> day of JULY, 1997.

For Perry L. Hughes

Perry L. Hughes  
(Signature)

Perry L. Hughes  
(Printed Name)



INTEREST  
New Mexico  
Eddy

The foregoing instrument was acknowledged before me this 24<sup>th</sup> day of JULY, 1997, by Perry L. Hughes.

Thalia Marshall  
Notary Public

My Commission Expires:

November 06, 2000

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 30th day of July, 1997.

Petco Limited

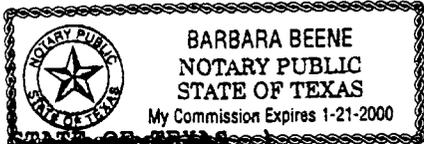
By: [Signature]  
Fred F. Dueser, General Partner

By: [Signature]  
J. L. McClymond, General Partner,

APPROVED AS TO FORM: [Signature]  
AS TO CONTENT: [Signature]  
AS TO INTEREST: [Signature]  
ADMINISTRATION: [Signature]

THE STATE OF TEXAS )  
COUNTY OF STEPHENS )

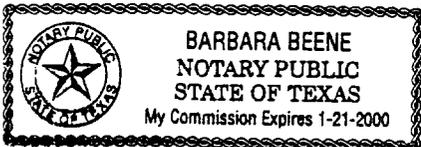
The foregoing instrument was acknowledged before me, a Notary Public, on the 31st day of July, 1997, by J. L. McClymond, General Partner of Petco Limited, a Texas limited partnership, on behalf of said partnership.



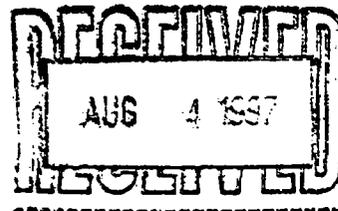
[Signature]  
Notary Public, State of Texas

THE STATE OF TEXAS )  
COUNTY OF STEPHENS )

The foregoing instrument was acknowledged before me, a Notary Public, on the 31st day of July, 1997, by FRED F. DUESER, General Partner of Petco Limited, a Texas limited partnership, on behalf of said partnership.



[Signature]  
Notary Public, State of Texas





RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 24<sup>th</sup> day of July, 1997.

Mountaineer Limited Partnership

Perry L Hughes  
(Signature)

PERRY L. HUGHES  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

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

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

\_\_\_\_\_

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25th day of July, 1997.

Ogden Sharon Hudnall  
(Signature)

Ogden Sharon Hudnall, Individually  
(Printed Name)

STATE OF TEXAS  
COUNTY OF SMITH

The foregoing instrument was acknowledged before me this 25th day of July, 1997, by Ogden Sharon Hudnall.

Flo Downing  
Notary Public

My Commission Expires:  
12-11-97



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:  
\_\_\_\_\_

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18 day of August, 1997.

Lometa Anne Cox  
(Signature)

Lometa Anne Cox, Individually

Lometa Anne Cox  
(Printed Name)

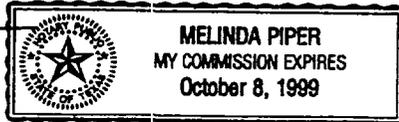
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Lometa Anne Cox.

My Commission Expires:

Melinda Piper  
Notary Public

10/8/99



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25th day of July, 1997.

Ogden Sharon Hudnall, Trustee  
(Signature)

Ogden Sharon Hudnall, Trustee  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_.

My Commission Expires:

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

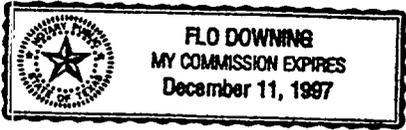
STATE OF TEXAS  
COUNTY OF SMITH

The foregoing instrument was acknowledged before me this 25th day of July, 1997, by Ogden Sharon Hudnall, of Ogden Sharon Hudnall Trust #2, a Trustee corporation, on behalf of the ~~corporation~~ Trust.

My Commission Expires:

Flo Downing  
Notary Public

12-11-97



RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18th day of August, 1997.

Lometa Hudnall Cox

(Signature)

Lometa Hudnall Cox

Trustee, Lometa Hudnall Cox Tr. #2

Lometa Hudnall Cox

(Printed Name)

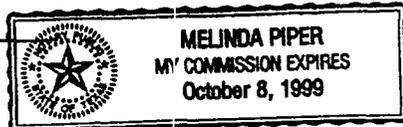
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Lometa Hudnall Cox, Trustee.

Melinda Piper  
Notary Public

My Commission Expires:

10/8/99



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_ of \_\_\_\_\_ a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18th day of August, 1997.

[Signature]  
(Signature) Sam Roosth, Trustee  
Lometa Hudnall Cox Tr. #2

Sam Roosth  
(Printed Name)

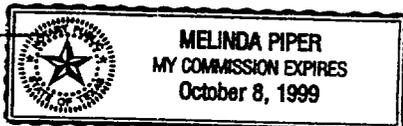
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Sam Roosth.

My Commission Expires:

[Signature]  
Notary Public

10/8/99



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

\_\_\_\_\_

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

IN THE MATTER OF THE APPLICATION OF  
SHAHARA OIL, LLC, FOR (1) APPROVAL OF THE  
PROPOSED SHAHARA STATE UNIT, (2) CREATION  
OF A WATERFLOOD AND TERTIARY RECOVERY PROJECT  
(3) APPROVAL OF TWO UNORTHODOX OIL WELL  
LOCATIONS, AND (4) QUALIFICATION OF THAT  
PROJECT FOR THE RECOVERED OIL TAX RATE,  
LEA COUNTY, NEW MEXICO.

Cases Nos. 11923 and 11924

**AFFIDAVIT OF MAILING**

Paul A. Cooter, being duly sworn, states that he mailed a copy  
of the Application of Shahara Oil, LLC on either January 13 or  
January 19, 1998, to the following named individuals and entities,  
as evidenced by the attachments hereto, to wit:

The Wiser Oil Company  
Attn: Mr. Earl Kreig  
8115 Preston Road, Suite 400  
Dallas, TX 75225

Phillips Petroleum Company  
Attn: Mr. J. S. Welin  
4001 Penbrook  
Odessa, TX 79762

Mr. Ray Powell  
Commissioner of Public Lands  
Attn: Mr. Larry Kehoe  
New Mexico State Land Office  
PO Box 1148  
Santa Fe, NM 87504

Norwest Trust Texas NA  
PO Box 659564  
San Antonio, TX 78286-9564

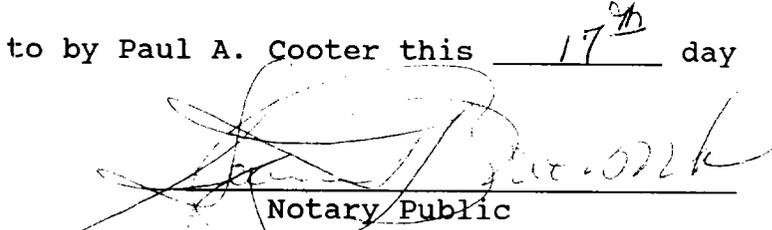
Further, Affiant says not.



Paul A. Cooter

State of New Mexico  
County of Bernalillo

Subscribed and sworn to by Paul A. Cooter this 17<sup>th</sup> day  
of February, 1998.

  
\_\_\_\_\_  
Notary Public  
My commission expires 9-4-94

(Seal, if any)



OFFICIAL SEAL  
Suzanne M. Bomersack  
NOTARY PUBLIC - STATE OF NEW MEXICO  
Notary Public and Notary Secretary of State  
My Commission Expires 9-4-94

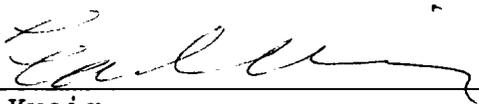
**BEFORE THE OIL CONSERVATION DIVISION  
NEW MEXICO DEPARTMENT  
OF ENERGY, MINERALS AND NATURAL RESOURCES**

IN THE MATTER OF THE APPLICATION OF  
SHAHARA OIL, LLC, FOR (1) APPROVAL OF THE  
PROPOSED SHAHARA STATE UNIT, (2) CREATION  
OF A WATERFLOOD AND TERTIARY RECOVERY PROJECT  
(3) APPROVAL OF TWO UNORTHODOX OIL WELL  
LOCATIONS, AND (4) QUALIFICATION OF THAT  
PROJECT FOR THE RECOVERED OIL TAX RATE,  
LEA COUNTY, NEW MEXICO.

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

The undersigned hereby acknowledges receipt of the  
Application filed by Shahara Oil, LLC, a New Mexico limited  
liability company, this 20 day of January, 1998.

THE WISER OIL COMPANY

By   
Earl Kreig  
8115 Preston Road, Suite 400  
Dallas, TX 75225

# KEMP, SMITH, DUNCAN & HAMMOND, P.C.

ATTORNEYS AT LAW

500 MARQUETTE N.W., SUITE 1200, ALBUQUERQUE, NEW MEXICO 87102-5311 | P.O. BOX 1276, 87103-1276 | 505 247-2315 | FAX 505 764-5480

## EL PASO\*

IAD R. SMITH  
CHRIS A. PAUL  
CHARLES C. HIGH, JR.  
JIM CURTIS  
DANE GEORGE  
MICHAEL D. MCQUEEN  
DARRELL R. WINDHAM  
ROGER D. AKSAMIT  
MICHAEL F. AINSA I I  
YVONNE K. PUIG  
CHARLES A. BECKHAM, JR.  
MARGARET A. CHRISTIAN

KENNETH R. CARR  
MARK R. FLORA\*\*\*\*  
RICHARD BONNER  
MILTON C. COLIA  
DARCY ALAN FROWNFELTER\*\*  
MARK E. MENDEL  
NANCY C. SANTANA  
MITZI T. SHANNON  
ALLAN GOLDFARB  
SUSAN F. AUSTIN  
JOHN S. HOWELL  
KATHLEEN CAMPBELL WALKER

CYNTHIA S. ANDERSON\*\*\*  
KEVIN E. SHANNON  
KAY C. JENKINS I  
JAMES W. BREWER I  
TERRY G. PASQUALONE  
HENRY L. SMITH, JR.  
THOMAS G. WICKER, JR.  
CLARA B. BURNS I  
MARK N. OSBORN  
MATTHEW R. HENRY  
GENE WOLF  
ROBERT L. BLUMENFELD I

HUNTER W. BURKHALTER  
FRANCISCO J. GUZMÁN  
R. SHAWN OLLER I  
KENT J. LISENBY  
KATHRINE E. URBANI  
STEVEN J. BLANCO I  
JASON T. CHAPMAN  
TAMMY M. HOLT  
CATHERINE C. CHAVEZ  
ERICH A. MORALES  
MICHAEL C. ZWEBER  
SUSAN ZULKOWSKI

## ALBUQUERQUE†

JOHN P. EASTHAM  
ROBERT A. JOHNSON  
DONALD B. MONNHEIMER  
DENNIS E. JONTZ I I I  
D. JAMES SORENSON  
BRUCE E. CASTLE\*  
JAMES L. RASMUSSEN  
STEPHEN R. NELSON  
A. DREW HOFFMAN\*  
R. THOMAS DAWE  
KATHLEEN DAVISON LEBECK  
MARILYN C. O'LEARY

ROSS L. CROWN  
P. RENEE REIMER\*  
CLINTON W. MARRS  
NICKAY B. MANNING  
CHARLOTTE LAMONT I I I I  
ALAN HALL  
JAMES T. REIST  
KARLA K. POE I I  
DAVID J. ABYLL  
JANNIE R. FRIEDE I I  
HEATHER J. SAFFELL  
JEFFREY H. ALBRIGHT

OF COUNSEL: JOSEPH P. HAMMOND  
RAYMOND H. MARSHALL

OF COUNSEL: PAUL A. COOTER\*

\* MEMBERS TEXAS BAR  
† MEMBERS NEW MEXICO BAR

\*\* MEMBERS IDAHO BAR  
I I MEMBERS COLORADO BAR

\*\*\* MEMBERS NEW MEXICO AND CALIFORNIA BARS  
I I I MEMBERS IOWA BAR

\*\*\*\* MEMBERS FLORIDA AND MICHIGAN BARS  
I I I I MEMBERS DISTRICT OF COLUMBIA BAR

January 13, 1998

Phillips Petroleum Company  
4001 Penbrook  
Odessa, TX 79762

Attn: Mr. J. S. Welin

Dear Mr. Welin:

Enclosed for your information is a copy of the application filed by Shahara Oil LLC relating to the W/2 Sec. 16, T27S, R33E, NMPM, Lea County, New Mexico. The same has been filed with the New Mexico Oil Conservation Division, and should come on for hearing either February 5 or February 19, 1998.

If you have any questions about this matter, please contact Perry Hughes with Shahara Oil, 207 West McKay, Carlsbad, New Mexico 88220 (505/885-5433), or the writer.

Very truly yours,



Paul A. Cooter

PAC\smb  
enclosure



State of New Mexico  
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.  
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760  
FAX (505) 827-5766

January 21, 1998

Kemp, Smith, Duncan & Hammond, P.C.  
P.O. Box 1276  
Albuquerque, New Mexico 87103

Attn: Mr. Paul A. Cooter

Re: OCD Application  
Sahara Oil, LLC  
W/2, Section 16-17S-33E  
Lea County, New Mexico

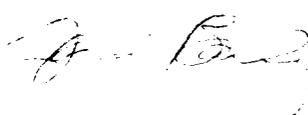
Dear Mr. Cooter:

We are in receipt of your letter of January 19, 1998, wherein you have notified this office of your proposed application to OCD for the proposed Sahara Unit. Approval of this unit by the Commissioner is not needed because the unit area is all covered under Lease No. B-2148.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.  
COMMISSIONER OF PUBLIC LANDS

  
BY:  
JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744

RP/JB/cpm  
xc: Reader File

JAN 23 1998

KEMP, SMITH  
ALBUQ. OFFICE

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

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

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

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

Consult postmaster for fee.

3. Article Addressed to:  
 Norwest Trust Texas NA  
 PO Box 659564  
 San Antonio TX 78286-9564

4a. Article Number  
 Z 289 563 729

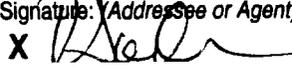
4b. Service Type

<input type="checkbox"/> Registered	<input checked="" type="checkbox"/> Certified
<input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured
<input type="checkbox"/> Return Receipt for Merchandise	<input type="checkbox"/> COD

7. Date of Delivery  
 1-20-98

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
 X 

Thank you for using Return Receipt Service.

UNITED STATES POSTAL SERVICE



First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Print your name, address, and ZIP Code in this box •

Paul A Cooter  
Kemp Smith Duncan & Hammond PC  
PO Box 1276  
Albuquerque NM 87103

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

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 11923  
ORDER NO. R-11058

**APPLICATION OF SHAHARA OIL, L.L.C. FOR A UNIT AGREEMENT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 19, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of September, 1998, the Division Director, having considered the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) At the time of the hearing Division Case Nos. 11923 and 11924 were consolidated for the purpose of testimony.
- (3) The applicant, Shahara Oil, L.L.C. ("Shahara"), seeks approval of its Shahara State Unit Agreement for an area comprising 320 acres, more or less, of State lands in Lea County, New Mexico, described as follows and hereinafter referred to as the "Unit Area":

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM

Section 16: W/2

- (4) The "Unitized Formation," as described within the Shahara State Unit Agreement, is to comprise the interval underlying the Unit Area in the Maljamar-Grayburg San Andres Pool that extends from a measured depth of approximately 4,100 feet to approximately 5,500 feet.

(5) Within the Unit Area, the applicant proposes to initiate an enhanced oil recovery project for the tertiary recovery of oil and gas from that portion of the Maljamar-Grayburg San Andres Pool designated as the Unitized Formation within the Unit Area. The proposed enhanced oil recovery project is the subject of companion Case No. 11924.

(6) No interested party appeared and objected to the proposed unit agreement.

(7) All (i) plans of development and operation (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the Unit Area should be submitted to the Division Director for approval.

(8) Approval of the proposed unit agreement promotes the prevention of waste and protection of correlative rights within the Unit Area.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Shahara Oil, L.L.C. ("Shahara") for approval of the Shahara State Unit Agreement for an area comprising 320 acres, more or less, of State lands in Lea County, New Mexico, described as follows and hereinafter referred to as the "Unit Area," for the purpose of establishing an enhanced oil recovery project is hereby granted.

**TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM**

Section 16: W/2

(2) The "Unitized Formation" shall include that interval underlying the Unit Area in the Maljamar-Grayburg San Andres Pool that extends from a measured depth of approximately 4,100 feet to approximately 5,500 feet.

(3) The plan contained in the Unit Agreement for the development and operation of the Unit Area is hereby approved as a proper conservation measure; provided however, notwithstanding any of the provisions contained in the Unit Agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations on the Unit Area and production of oil and gas therefrom.

(4) The unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 30 days after the effective date thereof; in the event of subsequent joinder by any other party or expansion or contraction of the Unit Area, the unit operator shall file with the Division, within 30 days thereafter, counterparts of the Unit Agreement reflecting the subscription of those interests.

(5) All (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the Unit Area shall be submitted to the Division Director for approval.

(6) This order shall become effective upon the approval of the Unit Agreement by the Commissioner of Public Lands for the State of New Mexico and shall automatically terminate upon the termination of this agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(7) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

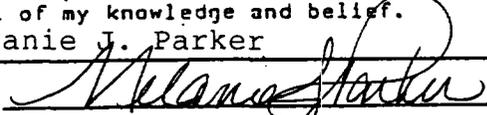
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
LORL WROTENBERY  
Director

SEAL

APPLICATION FOR AUTHORIZATION TO INJECT

- I. Purpose:  Secondary Recovery  Pressure Maintenance  Disposal  Storage  
Application qualifies for administrative approval?  yes  no
- II. Operator: Shahara Oil, LLC  
Address: 207 W. McKay, Carlsbad, NM 88220  
Contact party: Perry L. Hughes Phone: 505-885-5433
- III. Well data: Complete the data required on the reverse side of this form for each well proposed for injection. Additional sheets may be attached if necessary.
- IV. Is this an expansion of an existing project?  yes  no  
If yes, give the Division order number authorizing the project \_\_\_\_\_
- V. Attach a map that identifies all wells and leases within two miles of any proposed injection well with a one-half mile radius circle drawn around each proposed injection well. This circle identifies the well's area of review.
- \* VI. Attach a tabulation of data on all wells of public record within the area of review which penetrate the proposed injection zone. Such data shall include a description of each well's type, construction, date drilled, location, depth, record of completion, and a schematic of any plugged well illustrating all plugging detail.
- VII. Attach data on the proposed operation, including:
1. Proposed average and maximum daily rate and volume of fluids to be injected;
  2. Whether the system is open or closed;
  3. Proposed average and maximum injection pressure;
  4. Sources and an appropriate analysis of injection fluid and compatibility with the receiving formation if other than reinjected produced water; and
  5. If injection is for disposal purposes into a zone not productive of oil or gas at or within one mile of the proposed well, attach a chemical analysis of the disposal zone formation water (may be measured or inferred from existing literature, studies, nearby wells, etc.).
- \*VIII. Attach appropriate geological data on the injection zone including appropriate lithologic detail, geological name, thickness, and depth. Give the geologic name, and depth to bottom of all underground sources of drinking water (aquifers containing waters with total dissolved solids concentrations of 10,000 mg/l or less) overlying the proposed injection zone as well as any such source known to be immediately underlying the injection interval.
- IX. Describe the proposed stimulation program, if any.
- \* X. Attach appropriate logging and test data on the well. (If well logs have been filed with the Division they need not be resubmitted.)
- \* XI. Attach a chemical analysis of fresh water from two or more fresh water wells (if available and producing) within one mile of any injection or disposal well showing location of wells and dates samples were taken.
- XII. Applicants for disposal wells must make an affirmative statement that they have examined available geologic and engineering data and find no evidence of open faults or any other hydrologic connection between the disposal zone and any underground source of drinking water.
- XIII. Applicants must complete the "Proof of Notice" section on the reverse side of this form.
- XIV. Certification
- I hereby certify that the information submitted with this application is true and correct to the best of my knowledge and belief.
- Name: Melanie J. Parker Title Agent  
Signature:  Date: 11/24/97
- \* If the information required under Sections VI, VIII, X, and XI above has been previously submitted, it need not be duplicated and resubmitted. Please show the date and circumstance of the earlier submittal. \_\_\_\_\_

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

Exhibit 2

ATTACHMENT TO OCD FORM C-108

SHAHARA OIL, LLC  
SHAHARA STATE UNIT WATERFLOOD PROJECT

- I. Purpose - Application is made for authorization to inject water into the Grayburg/San Andres formation underlying a portion of the Shahara State Unit in Section 16 of Township 17 South, Range 33 East, Lea County, New Mexico, as shown on the attached Exhibit "A". The proposed project is an enhanced recovery program designed to economically recover additional oil reserves to the benefit of all parties holding an interest in the Unit Area.
- II. Operator - Shahara Oil, LLC
- III. Injection Well Data - The required well data and schematic diagrams of Shahara State Unit Nos. 1, 2, 3, 4, 5, 6, 7 and 8 are enclosed as Exhibit "B".
- IV. The Shahara State Unit No. 2 well is currently injecting under the Northeast Maljamar Waterflood Project authorized under Division Order No. R-3155. We request that this well be included in the Shahara State Unit Waterflood Project.
- V. Map - The attached Exhibit "A" identifies the proposed injection wells, the Area of Review within one-half mile of a proposed injection well, and all wells and leases within two miles of a proposed injection well.
- VI. Well Data - The well data for the wells within the Area of Review is attached as Exhibit "C" and the well data and schematic diagrams for all plugged and abandoned well bores within the Area of Review are attached as Exhibit "D".
- VII. Proposed Operations:
  1. Proposed average daily injection rate - 250 BWPD/well  
Proposed maximum daily injection rate - 500 BWPD/well
  2. A closed injection system will be maintained.
  3. An average injection pressure of approximately 2500 psi is anticipated. The maximum injection pressure will be subject to the injection pressures authorized by the Oil Conservation Division.
  4. The proposed injection fluid will consist of all of the Unit's produced water and fresh Ogallala water as required to make-up reservoir withdrawal volumes. The Ogallala water will be obtained from current water supply wells located on the caprock to the northeast of the Unit. Water compatibility studies have not been obtained nor considered pertinent in view of the actual injection experience in the Unit Area of

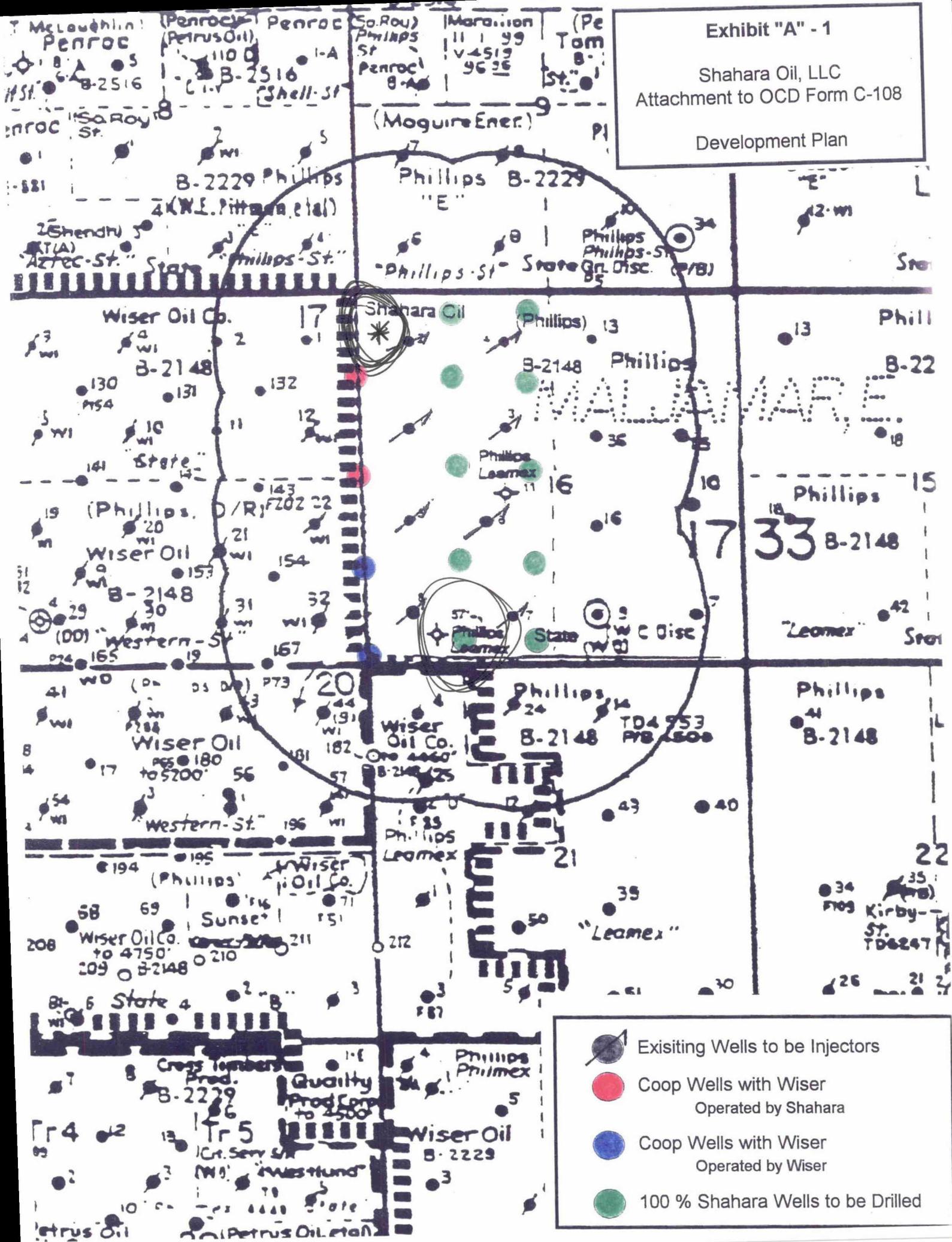
injecting Grayburg/San Andres produced water and Ogallala fresh water in a wide range of proportions into the proposed injection interval since the 1960's without any evidence of compatibility problems.

- VIII. Geological Data - The proposed injection interval is in the Grayburg/San Andres formations as a depth of 4100 to 5500 feet. The Grayburg formation primarily consists of quartz sands with dolomitic cementation; while, the San Andres formation primarily consists of dolomite with intermingled stringers of quartz sand with dolomitic cementation. The surface formation is Cretaceous and has no known sources of drinking water. The Ogallala aquifer and the caprock lies northeast of the Unit Area; there are no known sources of drinking water underlying the proposed unit.
- IX. Stimulation - Small acid treatments of about 2000 gallons per well have been sufficient to open the perforations for injection.
- X. Logging Data - The available logs are those on file with the Oil Conservation Division from the original operators of the wells.
- XI. Fresh Water Wells - No fresh water wells were producing within one mile of any proposed injection well.
- XII. Not applicable.
- XIII. Proof of Notice - Copies of this C-108 Application have been mailed to the surface owner and to each leasehold operator within one-half mile of the proposed injection wells.

Exhibit "A" - 1

Shahara Oil, LLC  
Attachment to OCD Form C-108

Development Plan





# **Exhibit "B"**

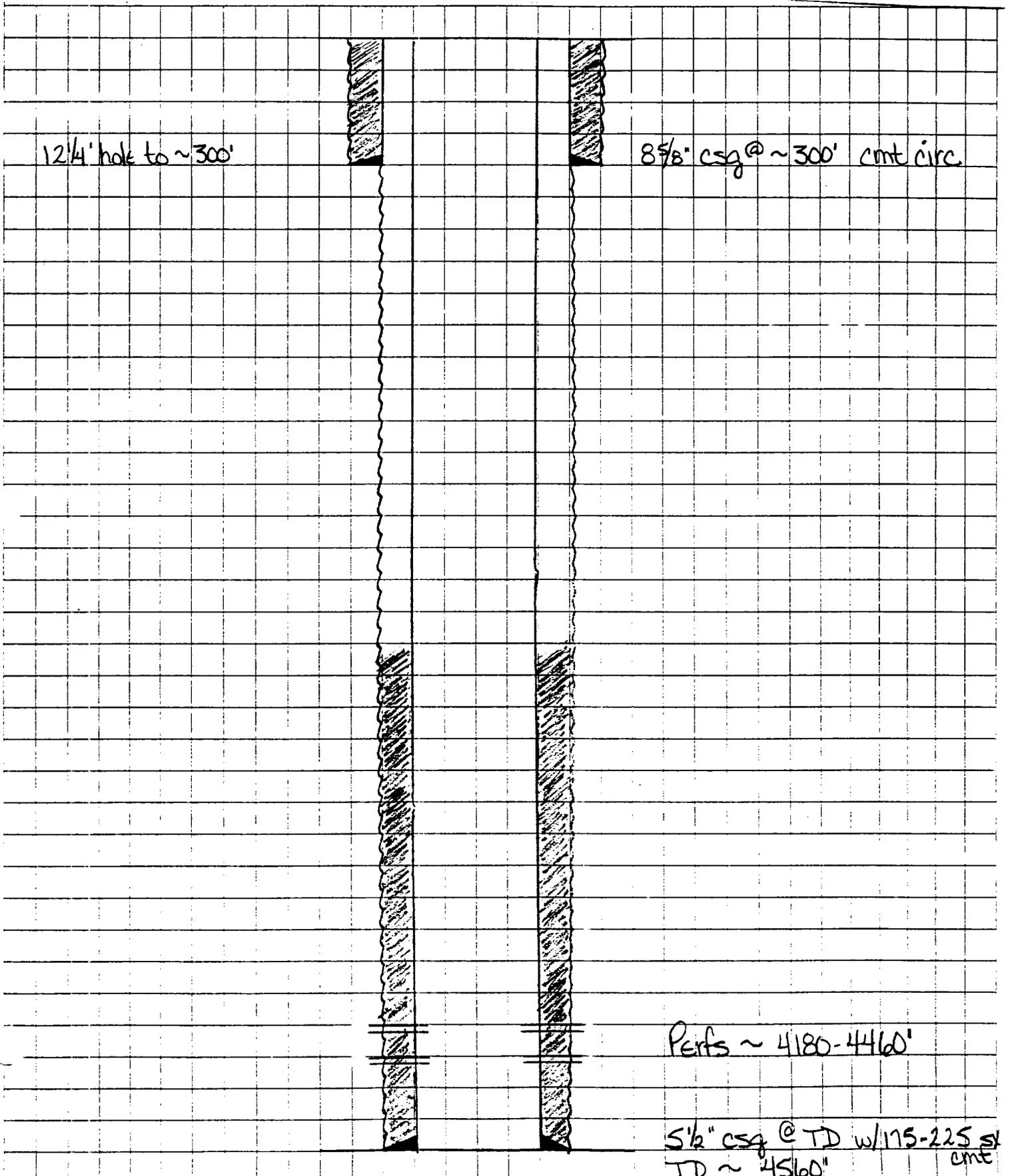
Well Data and  
Schematic Diagrams of  
Proposed Injection Wells

Shahara Oil, LLC  
Attachment to OCD Form C-108

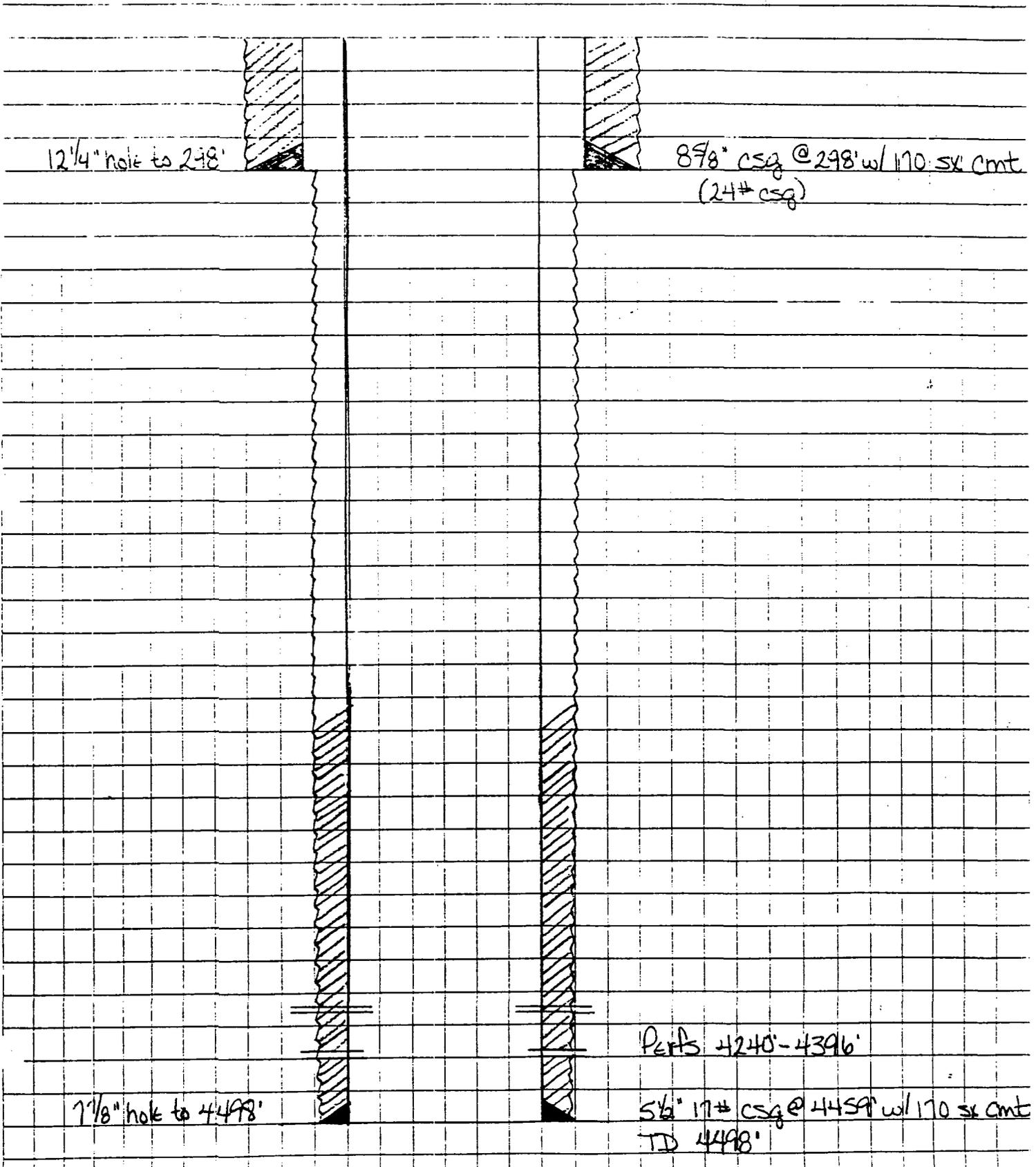


Shahara Oil, LLC

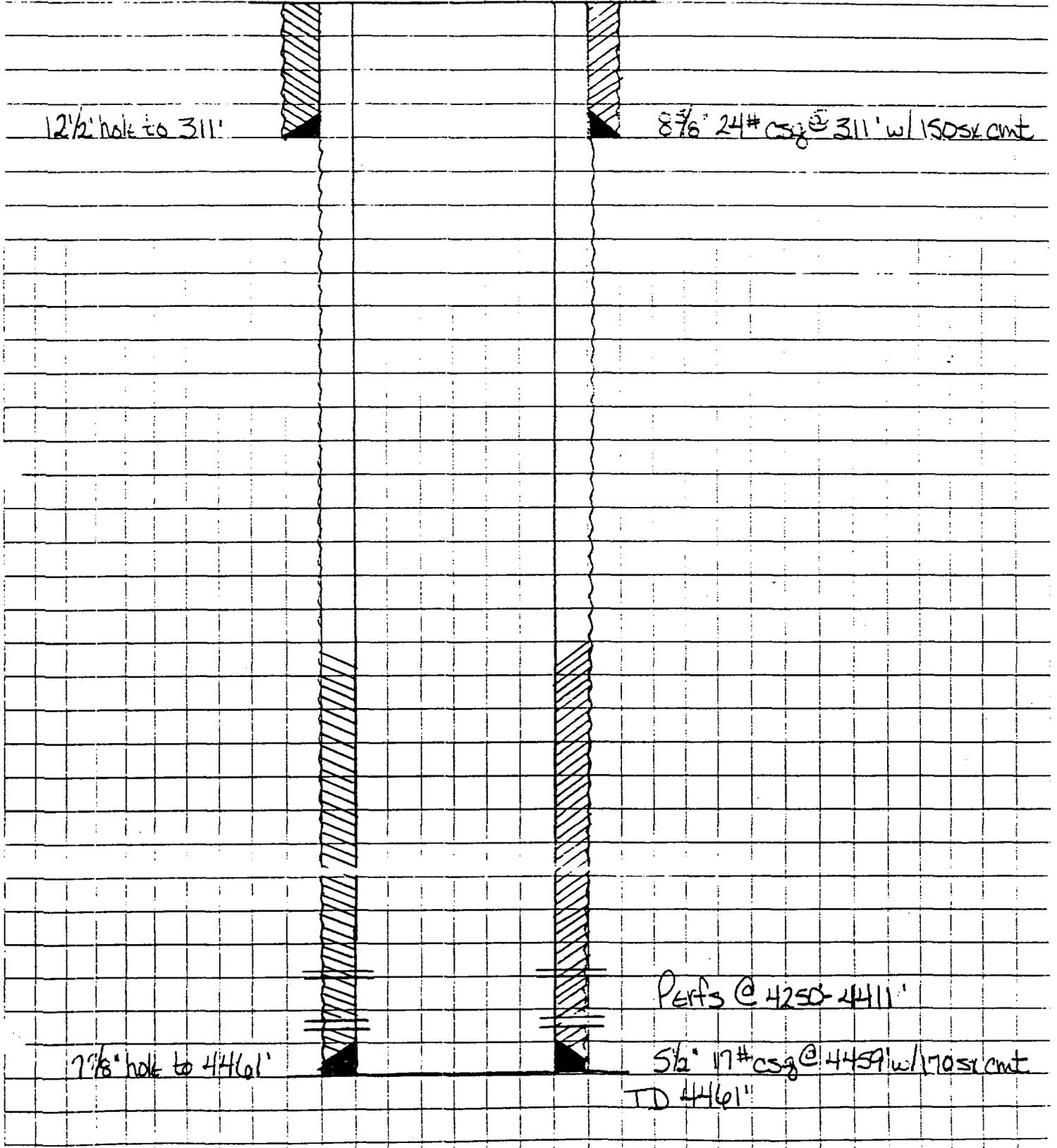
Proposed Typical  
Injection Well Bore Diagram



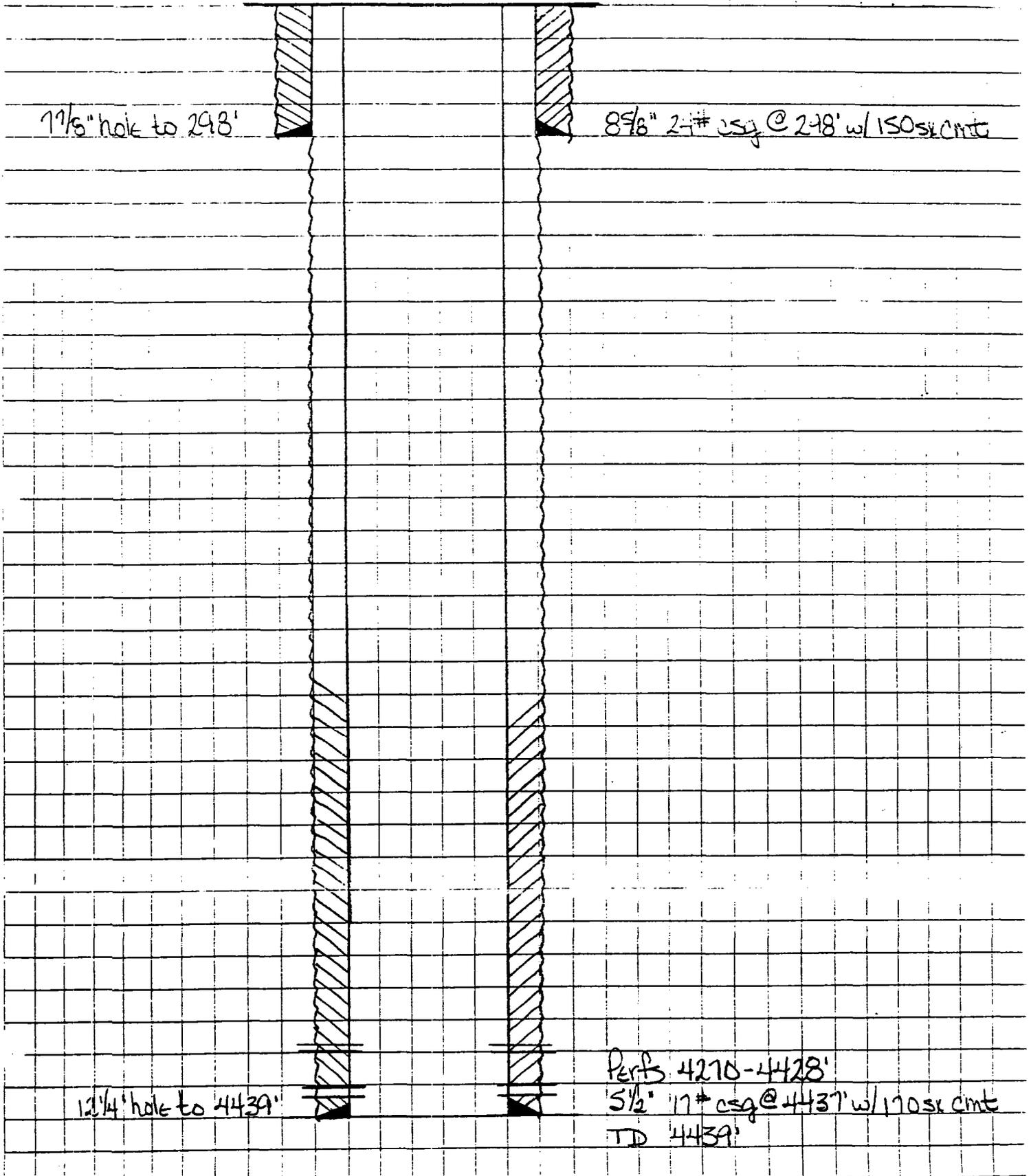
Phillips State No. 1  
1980' FNL & 660' FWL, Unit E  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 06/27/59



Phillips State No. 3  
1980' FNL & 1980' FWL, Unit F  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 07/24/59



Phillips State No. 4  
660' FNL & 1980' FWL, Unit C  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 08/13/59



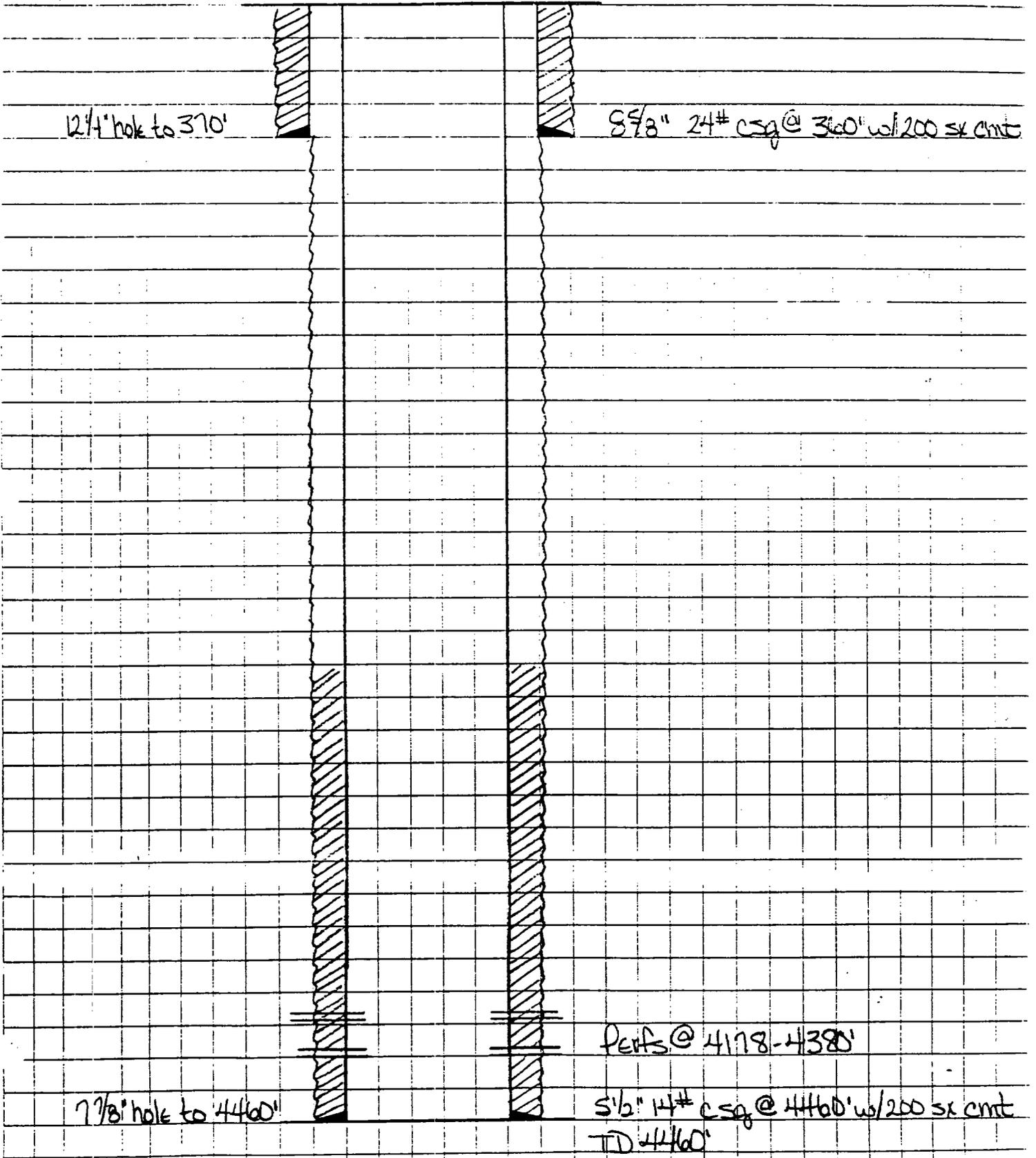
1 7/8" hole to 298'

8 5/8" 2-1/2" CSG @ 298' w/ 150 sk cmt

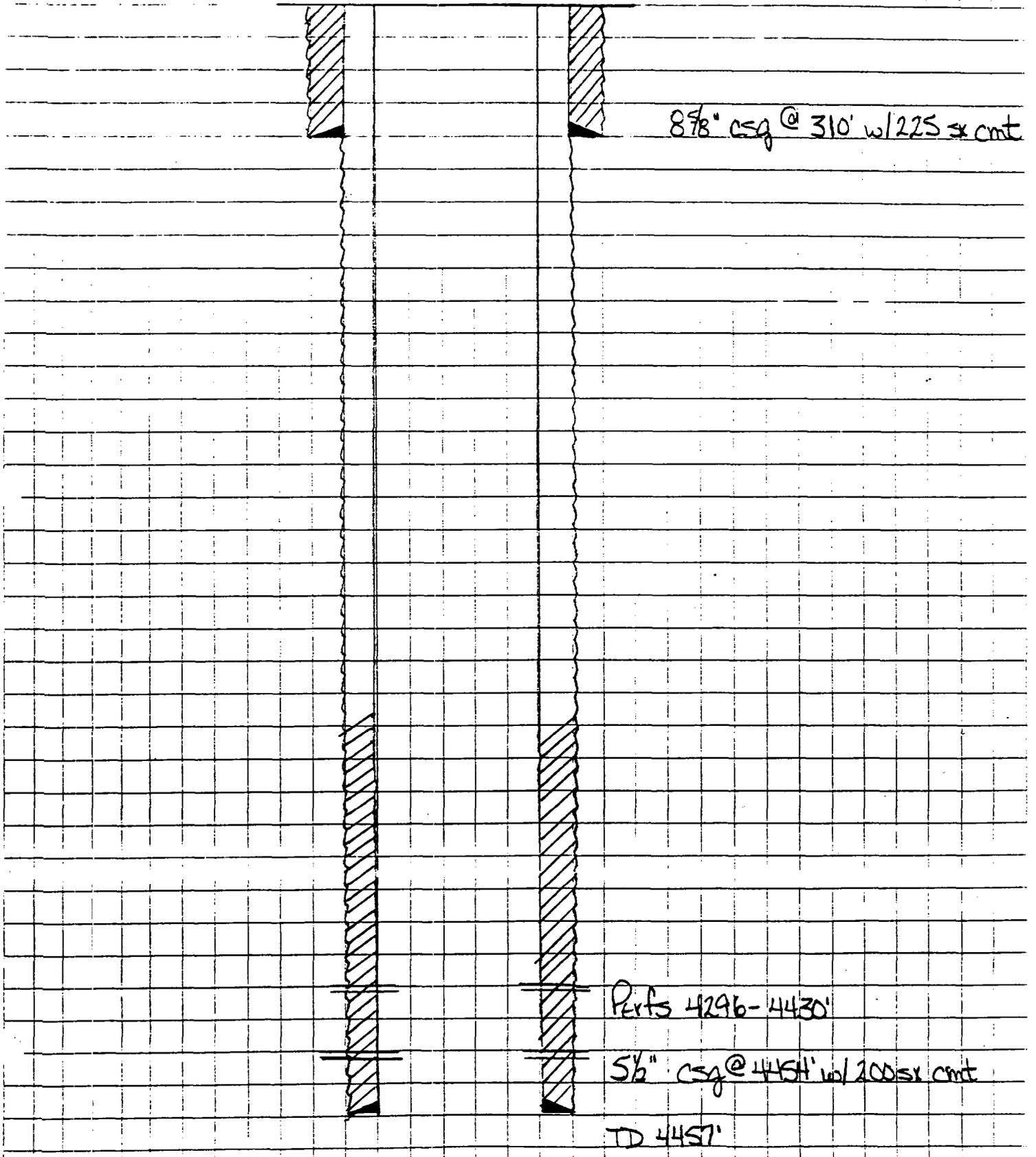
1 3/4" hole to 4439'

Perfs 4270-4428'  
5 1/2" 17# CSG @ 4437' w/ 170 sk cmt  
TD 4439'

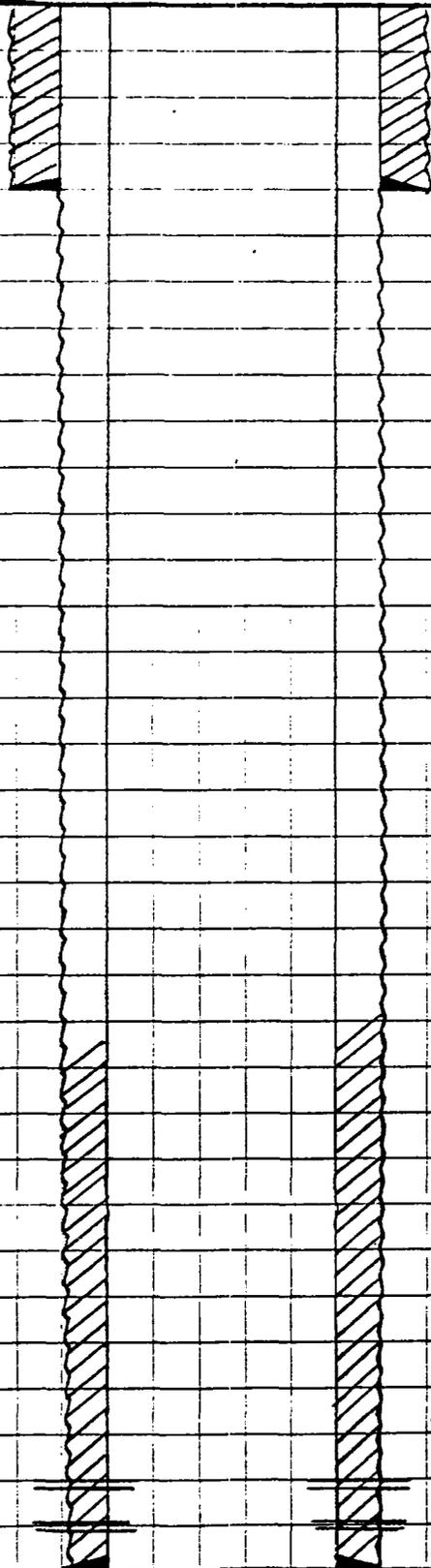
Phillips State No. 5  
1980' FSL & 660' FWL, Unit L  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 01/23/58



Phillips State No. 6  
1960' FSL & 1650' FWL, Unit K  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 05/17/58



Phillips State No. 7  
660' FSL & 1980' FWL, Unit N  
Section 16, T17S, R33E  
Lea County, New Mexico  
Completed 07/18/58



8 5/8" 24# csg @ 318' w/ 180 sk cmt

10 3/4" hole to 318'

Perfs 4304-4457'

5 1/2" 14# csg @ 4495' w/ 225 sk cmt  
TD 4500'

11/18/58

**Phillips State No. 8**  
 660' FSL & 660' FWL, Unit M  
 Section 16, T17S, R33E  
 Lea County, New Mexico  
 Completed 04/14/79

9-5/8", 36# casing @ 1438'  
 Cmt. w/600 sx.

2-3/8" tubing @ 4161' (136 jts.) OE  
 SN @ 4131'  
 2" X 1-1/16" X 12' pump  
 165 - 3/4" rods

5-1/2", 15.5# casing @ 4120'  
 Cmt. w/150 sx.

4170' →  
 Cmt. side-track plug

4305' →

4315'  
 Aluminum  
 Junk  
 &  
 Fill

1972 - CO 4012'-4265' (recover pieces of tally frac gun)

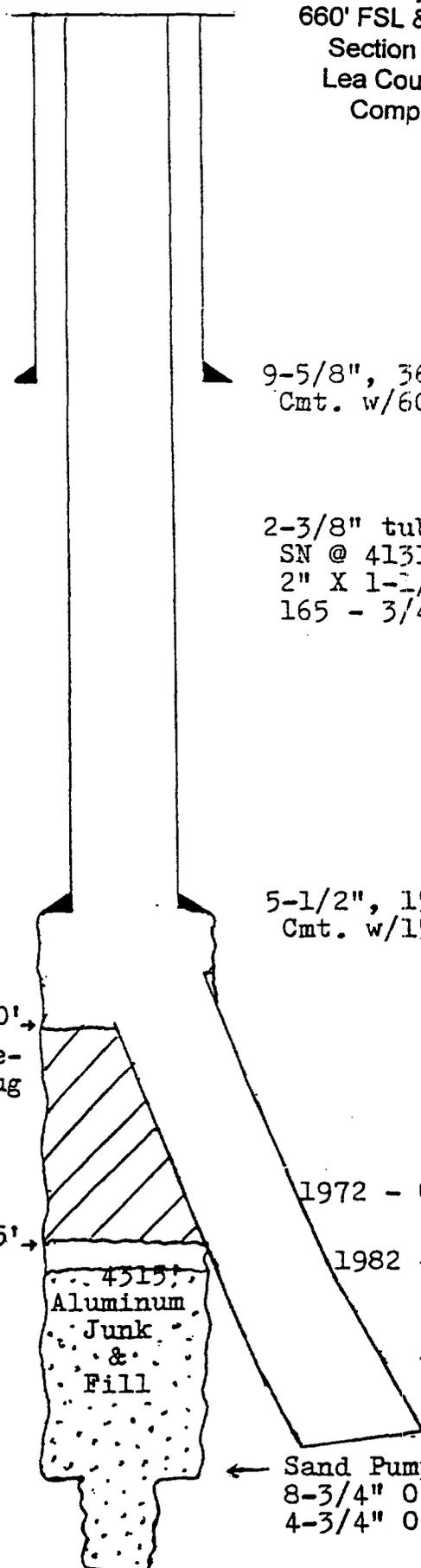
1982 - CO 4265'-4315' Spot cmt. 4305'-4170'.  
 Sidetrack well to 4430'.

4-3/4" sidetrack hole

TD = 4430'

← Sand Pump @ 4500'  
 8-3/4" O.H. to 4508'  
 4-3/4" O.H. to 4570'

TD - 4570'



# **Exhibit "C"**

Well Data for  
Wells Within the  
Area of Review

Shahara Oil, LLC  
Attachment to OCD Form C-108

**Exhibit "C"**  
**Area of Review Well Data**  
**Attachment to Shahara State Unit C-108**

Operator - Well Name Location	Completion Date	TD	PBTD	Casing Size	Casing Depth	Cement Sacks/Top	WIW Pkr @	Producing Interval	Stimulation	Current Status
Phillips Petroleum Company Leamex #9 659' FSL & 1975' FEL, Unit O Section 16- T17S- R33E	01/23/61	15,390'	11,185'	8 5/8" 5 1/2"	4530' 11,523'	1900 sx/ P&P 635 sx/ P&P		Wolfcamp 10,622'-10,722'	A 5000 gal	Producing
Phillips Petroleum Company Leamex #13 660' FNL & 1980' FEL, Unit B Section 16- T17S- R33E	06/19/96	4510'	4496'	8 5/8" 4 1/2"	350' 4510'	250 sx/ class H 150 sx/ class H		GBSA 4314'-4496'	A 1500 gal	Producing
Phillips Petroleum Company Leamex #36 1980' FNL & 1980' FEL, Unit G Section 16- T17S- R33E	03/05/84	4800'	4757'	8 5/8" 4 1/2"	351' 4500'	400 sx/circ 950 sx/circ		GBSA 4100'-4675'	A 11,500 gal F 34,000 gal	Producing
Phillips Petroleum Company Leamex #17 660' FSL & 660' FEL, Unit P Section 16- T17S- R33E	12/13/73	4552'	4410'	8 5/8" 4 1/2"	414' 4500'	300 sx 300 sx		GBSA 4162'-4393'	A 1000 gal F 20,000 gal	Producing
Phillips Petroleum Company Leamex #16 1930' FSL & 1980' FEL, Unit J Section 16- T17S- R33E	09/30/69	4550'	4525'	8 5/8" 4 1/2"	374' 4550'	250 sx 150 sx		GBSA 4290'-4388'	A 2200 gal	Producing
Phillips Petroleum Company Leamex #15 1980' FNL & 760' FEL, Unit H Section 16- T17S- R33E	10/01/69	4515'	4495'	8 5/8" 4 1/2"	373' 4515'	250 sx/circ 275 sx		GBSA 4355'-4453'	A 1500 gal	Producing
The Wisor Oil Company Caprock Majamar Unit #12 1980' FNL & 660' FEL, Unit H Section 17- T17S- R33E	04/28/95 (2nd)	4570'		8 5/8" 5 1/2" 2"	313' 4439' 4222'		4106'	GBSA 4246'-4570'	A 3000 gal	Active WIW
The Wisor Oil Company Caprock Majamar Unit #132 1341' FNL & 1343' FEL, Unit G Section 17- T17S- R33E	12/28/95	4950'		8 5/8" 5 1/2"	1325' 4950'	500 sx/circ 1550 sx/circ		GBSA 4247'-4758'	A 4000 gal F 76,000gal & 140,000#	Producing
The Wisor Oil Company Caprock Majamar Unit #143 2560' FSL & 1409' FEL, Unit J Section 17- T17S- R33E	10/18/95	4950'		8 5/8" 5 1/2"	1320' 4950'	600 sx/circ 1450 sx/circ		GBSA 4238'-4763'	A 8000 gal F 75,000 gal & 154,000#	Producing

**Exhibit "C"**  
**Area of Review Well Data**  
**Attachment to Shahara State Unit C-108**

Operator - Well Name Location	Completion Date	TD	PBTD	Casing Size	Casing Depth	Cement Sacks/Top	WIW Pkr @	Producing Interval	Stimulation	Current Status
The Wiser Oil Company Caprock Majlamar Unit #154 1232' FSL & 1247' FEL, Unit P Section 17- T17S- R33E	04/15/95	5550'	5432'	8 5/8" 5 1/2"	1322' 550'	600 sx/circ 1480 sx/circ		GBSA 4224'-4792'	A 8500 gal F 63,000 gal & 102,100#	Producing
The Wiser Oil Company Caprock Majlamar Unit #11 1980' FNL & 1980' FEL, Unit G Section 17- T17S- R33E	09/27/57 10/10/95 (2nd)	4252'		8 5/8" 5 1/2"	323' 4434'	250 sx 150 sx	4137'	GBSA 4223'-4525'	A 3500 gal (04/95) F 20,000 gal & 10,000 #	Active WIW
The Wiser Oil Company Caprock Majlamar Unit #32 660' FSL & 660' FEL, Unit P Section 17- T17S- R33E	03/08/56 02/13/95 (2nd)	4610'	4495'	8 5/8" 5 1/2"	274' 4495'	2200 sx/plug	4155'	GBSA 4216'-4607'	A 3000 gal	Active WIW
The Wiser Oil Company Caprock Majlamar Unit #22 1980' FSL & 660' FEL, Unit I Section 17- T17S- R33E		4580' 4671'		8 5/8" 5 1/2"	275' 4410'	600 sx/plug	4073'	GBSA 4172'-4580'	A 2500 gal	Active WIW
The Wiser Oil Company Caprock Majlamar Unit #6 660' FNL & 660' FEL, Unit A Section 17- T17S- R33E	12/06/57 10/18/95 (2nd)	4550'		8 5/8" 5 1/2"	4457'	350 sx/circ		GBSA 4258'-4550'	A 5000 gal	Producing
The Wiser Oil Company Caprock Majlamar Unit #167 20' FSL & 1385' FEL, Unit O Section 20- T17S- R33E		5550'	5470'	8 5/8" 5 1/2"	1320' 5550'	600 sx/circ 1990 sx/circ		GBSA 4203'-4759'	A 6000 gal F 16,000 gal & 10,000#	Producing
The Wiser Oil Company Caprock Majlamar Unit #44 660' FNL & 660' FEL, Unit A Section 20- T17S- R33E	02/17/56	4500'		8 5/8" 5 1/2"	283' 4500'	200 sx/circ 2500 sx/circ	4119'	GBSA 4228'-4430'	A 11,500 gal	Active WIW
The Wiser Oil Company Caprock Majlamar Unit #45 660' FNL & 660' FEL, Unit D Section 21- T17S- R33E	04/21/56	4449'		8 5/8" 5 1/2"	301' 4234'	200 sx/circ 200 sx	4178'	GBSA 4234'-4448'	A 3500 gal F 12,000 gal & 12,000 #	Active WIW
The Wiser Oil Company Caprock Majlamar Unit #58 1980' FNL & 660' FEL, Unit E Section 21- T17S- R33E	10/10/55	4600'		8 5/8" 5 1/2"	301' 4229'	225 sx/circ 220 sx	4176'	GBSA 4229'-4452'	A 3500 gal F 12,000 gal & 12,000#	Active WIW

**Exhibit "C"**  
**Area of Review Well Data**  
Attachment to Shahara State Unit C-108

Operator - Well Name Location	Completion Date	TD	PBTD	Casing Size	Casing Depth	Cement Sacks/Top	WIW Pkr @	Producing Interval	Stimulation	Current Status
The Wiser Oil Company Caprock Majjamar Unit #59 1980' FNL & 1980' FWL, Unit F Section 21- T17S- R33E	10/18/62	4486'		8 5/8" 5 1/2"	349' 4486'	350 sx/circ 450/2600	4217'	GBSA 4306'-4468'	F 20,000 gal & 25,000#	Active WIW
The Wiser Oil Company Caprock Majjamar Unit #182 1276' FNL & 48' FWL, Unit D Section 21- T17S- R33E	06/01/96	4850'	4800'	8 5/8" 5 1/2"	490' 4850'	375 sx/circ 1400 sx/circ		GBSA 4243'-4442'	A 3000 gal F 55,000 gal & 100,000#	Producing
Phillips Petroleum Company Leamex #24 560' FNL & 1980' FWL, Unit C Section 21- T17S- R33E	01/14/80	11,000'	10,952'	13 3/8" 8 5/8" 5 1/2"	390' 4700' 11,000'	660 sx/circ 1665 sx/circ 1550 sx/circ		Wolfcamp 9946'-10,488'	A 600 gal A 1000 gal	Producing

# **Exhibit "D"**

Well Data and  
Schematic Diagrams of  
Plugged and Abandoned  
Well Bores Within the  
Area of Review

Shahara Oil, LLC  
Attachment to OCD Form C-108

**Exhibit "D"**  
**Plugged and Abandoned Well Data**  
**Attachment to Shahara State Unit C-108**

Operator - Well Name Location	Plug Date	TD	Perfs	Casing Size	Casing Depth	Cement Sacks/Top
Phillips Petroleum Company						
Phillips "E" State #6	03/31/95	4458'	4309-4410'	8 5/8"	290'	175 sx/circ
660' FSL & 660' FWL, Unit M				5 1/2"	4454'	125 sx
Section 9-T17S-R33E						
Phillips Petroleum Company						
Phillips "E" State #8	04/04/95	4436'	4332-4426'	8 5/8"	295'	185 sx/circ
660' FSL & 1980' FWL, Unit N				5 1/2"	4435'	50 sx
Section 9-T17S-R33E						
Phillips Petroleum Company						
Phillips "E" State #9	04/06/95	4450'	3894-4240'	8 5/8"	302'	200 sx/circ
1980' FSL & 1980' FWL, Unit K				5 1/2"	4450'	100 sx
Section 9-T17S-R33E						
Phillips Petroleum Company						
Phillips "E" State #10	04/06/95	4570'	4357-4455'	8 5/8"	376'	300 sx/circ
990' FSL & 1650' FWL, Unit O				4 1/2"	4566'	270 sx
Section 9-T17S-R33E						
Phillips Petroleum Company						
Learnex #11	10/07/61	11310'		13 3/8"	334'	400 sx
2309' FSL & 1980' FWL, Unit K				8 5/8"	4545'	516 sx
Section 16-T17S-R33E				5 1/2"	11309'	913 sx
				(8 5/8" csg cut & pld @ 1131')		
				(5 1/2" csg cut & pld @ 2590')		
Phillips Petroleum Company						
Learnex #14	11/12/92	4553'	4282-4365'	8 5/8"	360'	250 sx/circ
660' FNL & 1980' FEL, Unit B				5 1/2"	4553'	300 sx/TOC 2570'
Section 21-T17S-R33E						
Phillips Petroleum Company						
Learnex #25	03/13/63	11500'	8973-11374'	13 3/8"	376'	500 sx/circ
1650' FNL & 760' FWL, Unit E				8 5/8"	4702'	1900 sx/circ
Section 21-T17S-R33E				5 1/2"	11499'	900 sx/TOC 3420'
				(5 1/2" csg cut & pld @ 3200')		
Phillips Petroleum Company						
Learnex #57	03/04/97	15200'	13562-14900'	13 3/8"	405'	500 sx/circ
460' FSL & 905' FWL, Unit M				8 5/8"	4640'	1800 sx/circ
Section 16-T17S-R33E				5 1/2"	13850'	1470 sx
				(5 1/2" csg cut & pld @ 7065')		

Phillips Petroleum Company  
Phillips "E" State #6  
660' FSL & 660' FWL, Unit M  
Section 9-T17S-R33E  
Plugged 03/31/95

10 sk cmt @ surface

150 sk cmt 40-335'  
Perf'd 5 1/2" csg @ 335'

12" hole to 290'  
8 5/8" csg (24#) set @ 285'  
w/ 175 sk - circ.

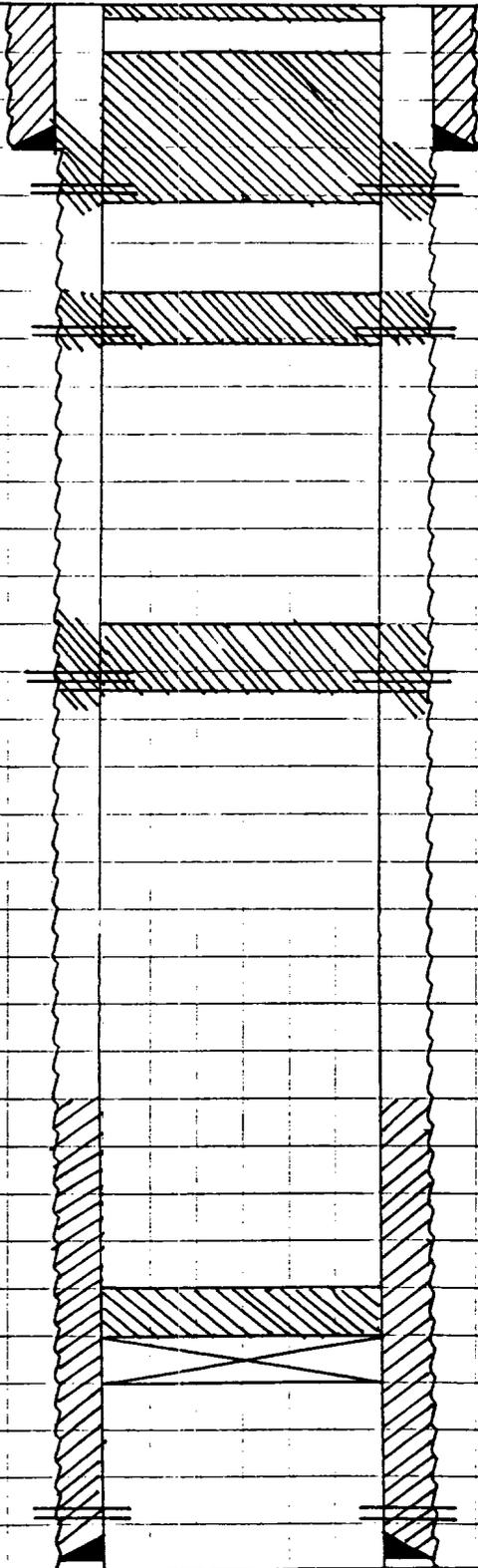
50 sk cmt 1320-1475'  
Perf'd 5 1/2" csg @ 1475'

25 sk cmt 2572-2772'  
Perf'd 5 1/2" csg @ 2722'

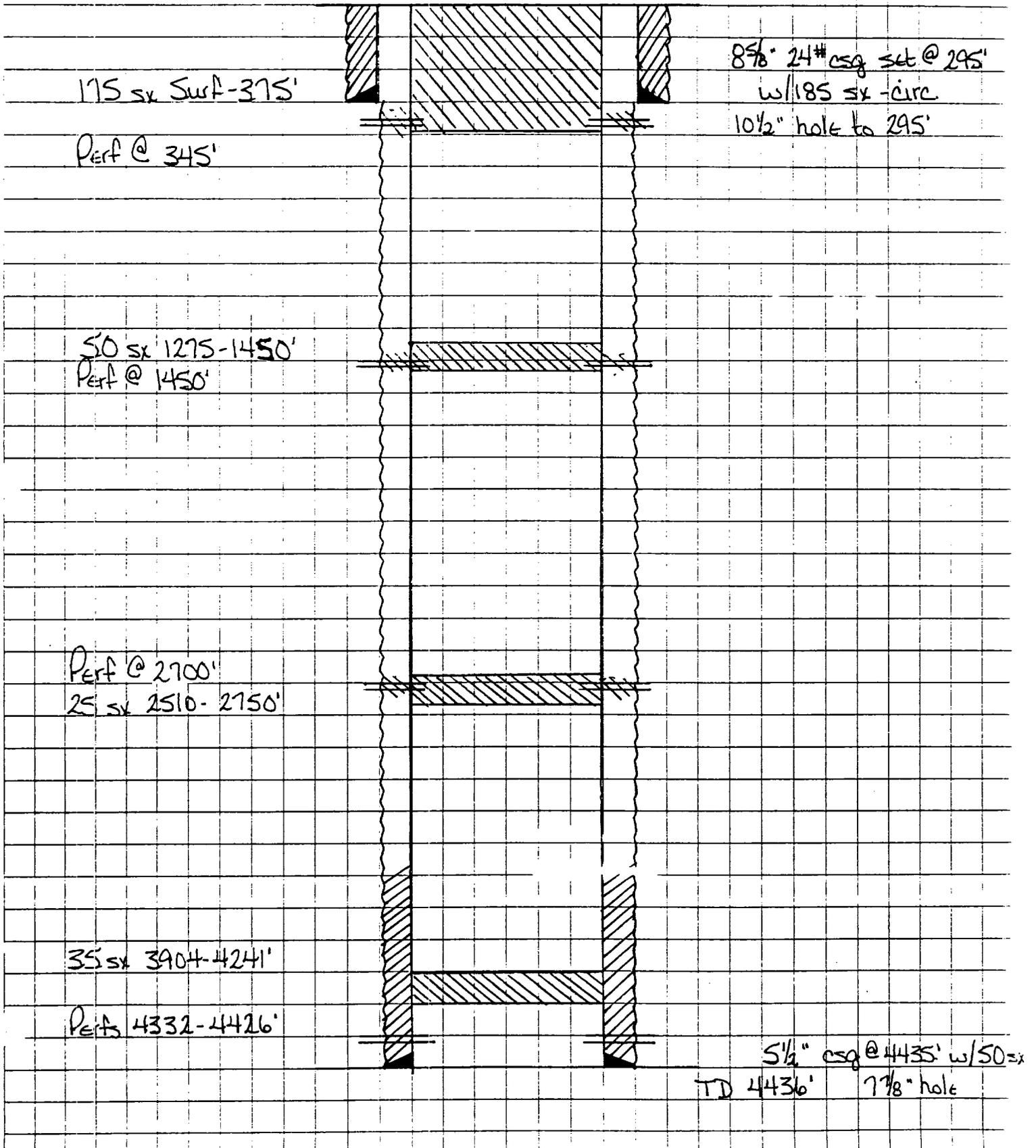
40 sk cmt 3947-4247'  
CIBP @ 4247'

Perfs 4309-4410'

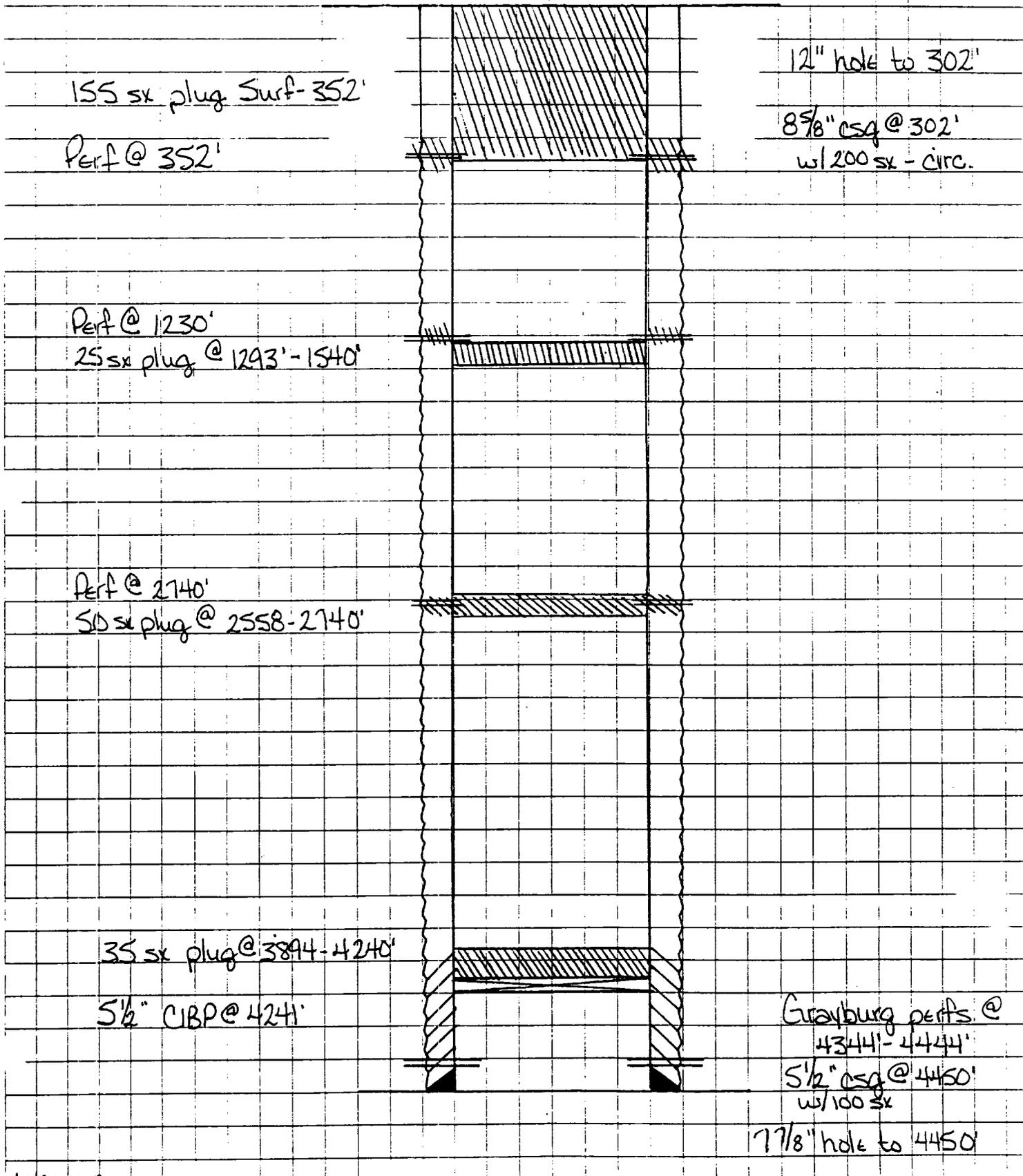
5 1/2" 14# csg set @ 4454'  
w/ 125 sk



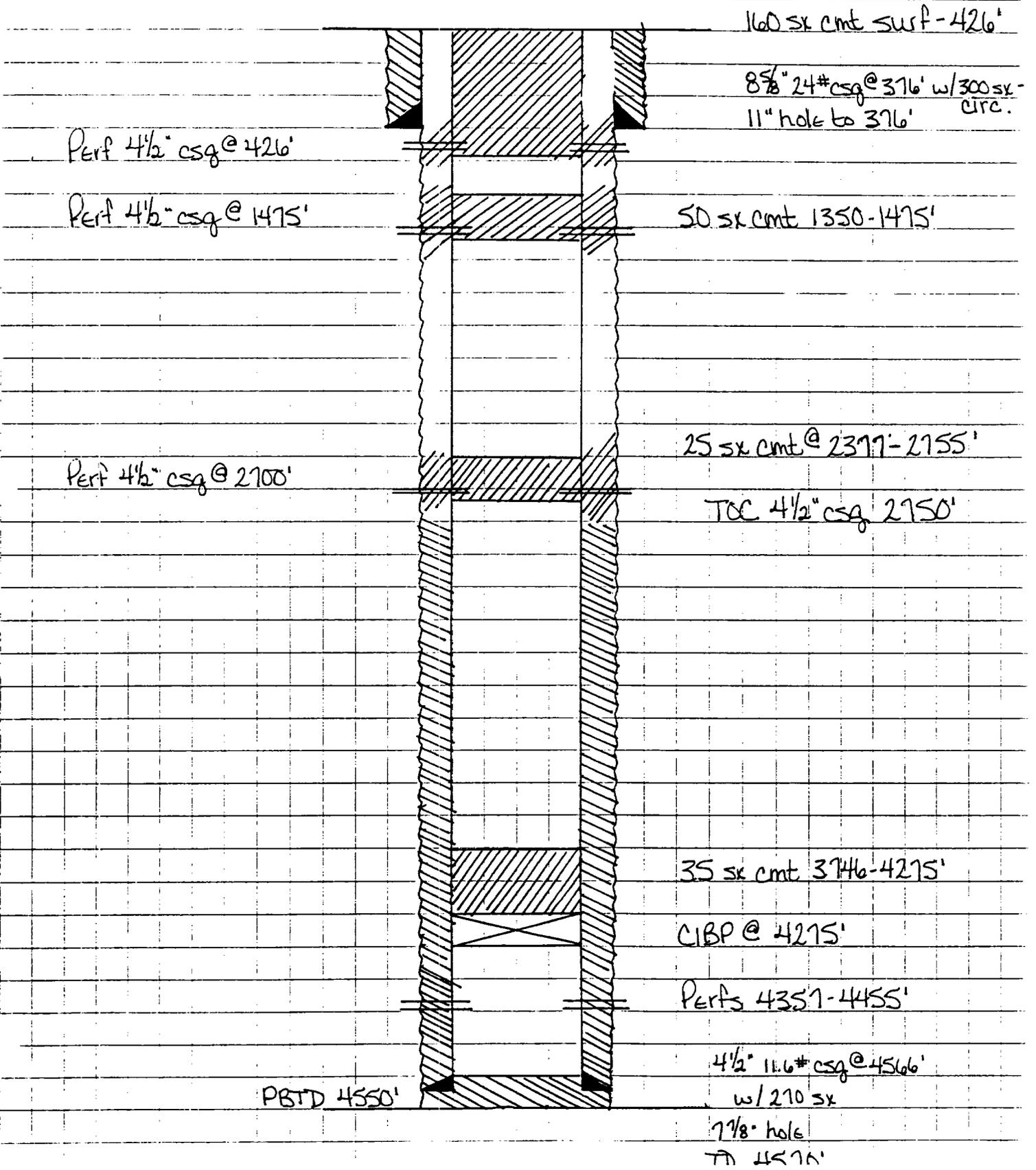
Phillips Petroleum Company  
Phillips "E" State #8  
660' FSL & 1980' FWL, Unit N  
Section 9, T17S, R33E  
Plugged 04/04/95



Phillips Petroleum Company  
**Phillips "E" State #9**  
 1980' FSL & 1980' FWL, Unit K  
 Section 9, T17S, R33E  
 Plugged 04/06/95



Phillips Petroleum Company  
**Phillips "E" State #10**  
 990' FSL & 1650' FWL, Unit O  
 Section 9-T17S-R33E  
 Plugged 04/06/95



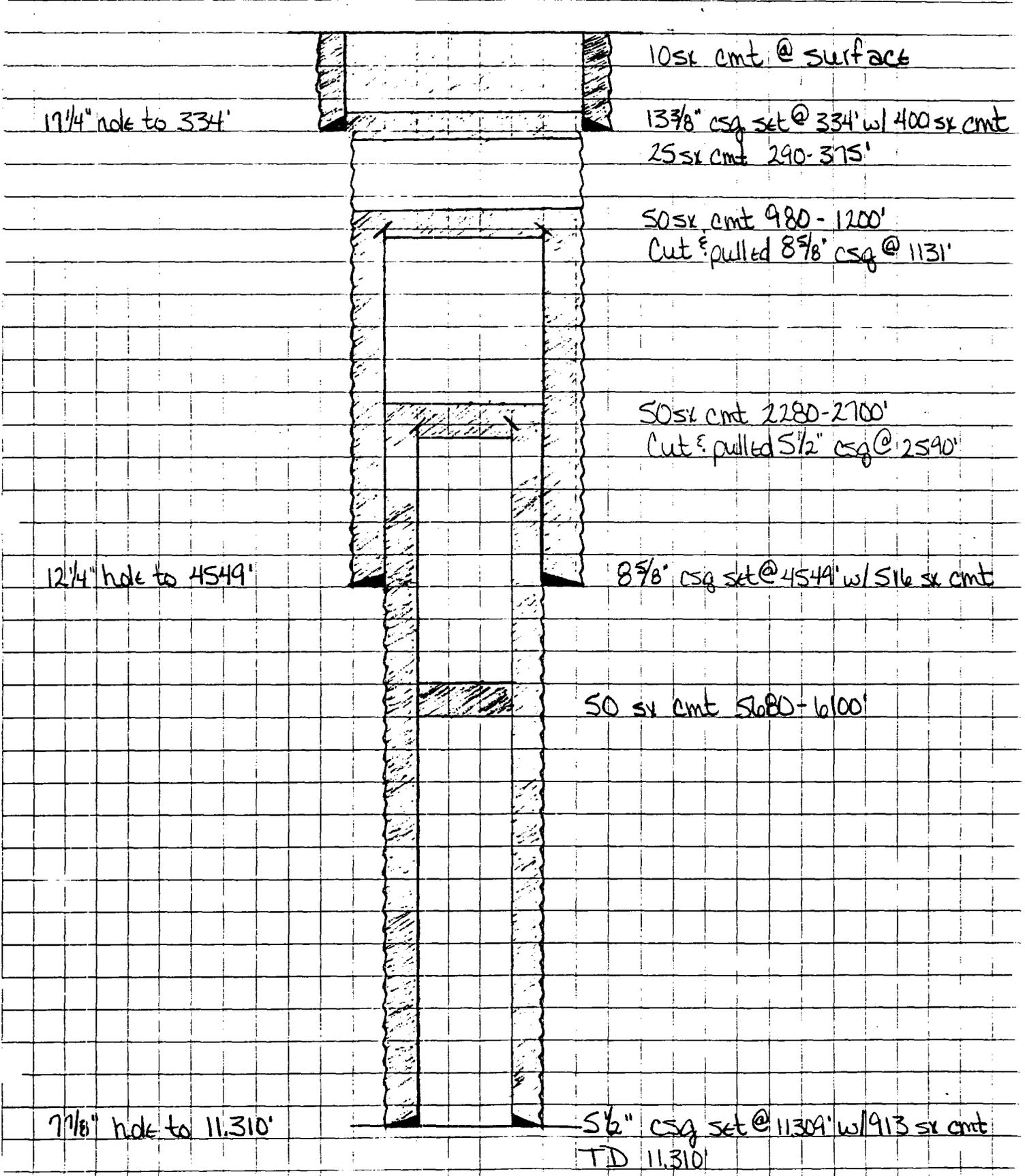
Phillips Petroleum Company

Leamex #11

2309' FSL & 1980' FWL, Unit K

Section 16-T17S-R33E

Plugged 10/07/61



10 sk cmt. @ surface

1 7/4" hole to 334'

1 3 7/8" csg set @ 334' w/ 400 sk cmt  
25 sk cmt 290-375'

50 sk cmt 980-1200'  
Cut & pulled 8 5/8" csg @ 1131'

50 sk cmt 2280-2700'  
Cut & pulled 5 1/2" csg @ 2590'

1 2 1/4" hole to 4549'

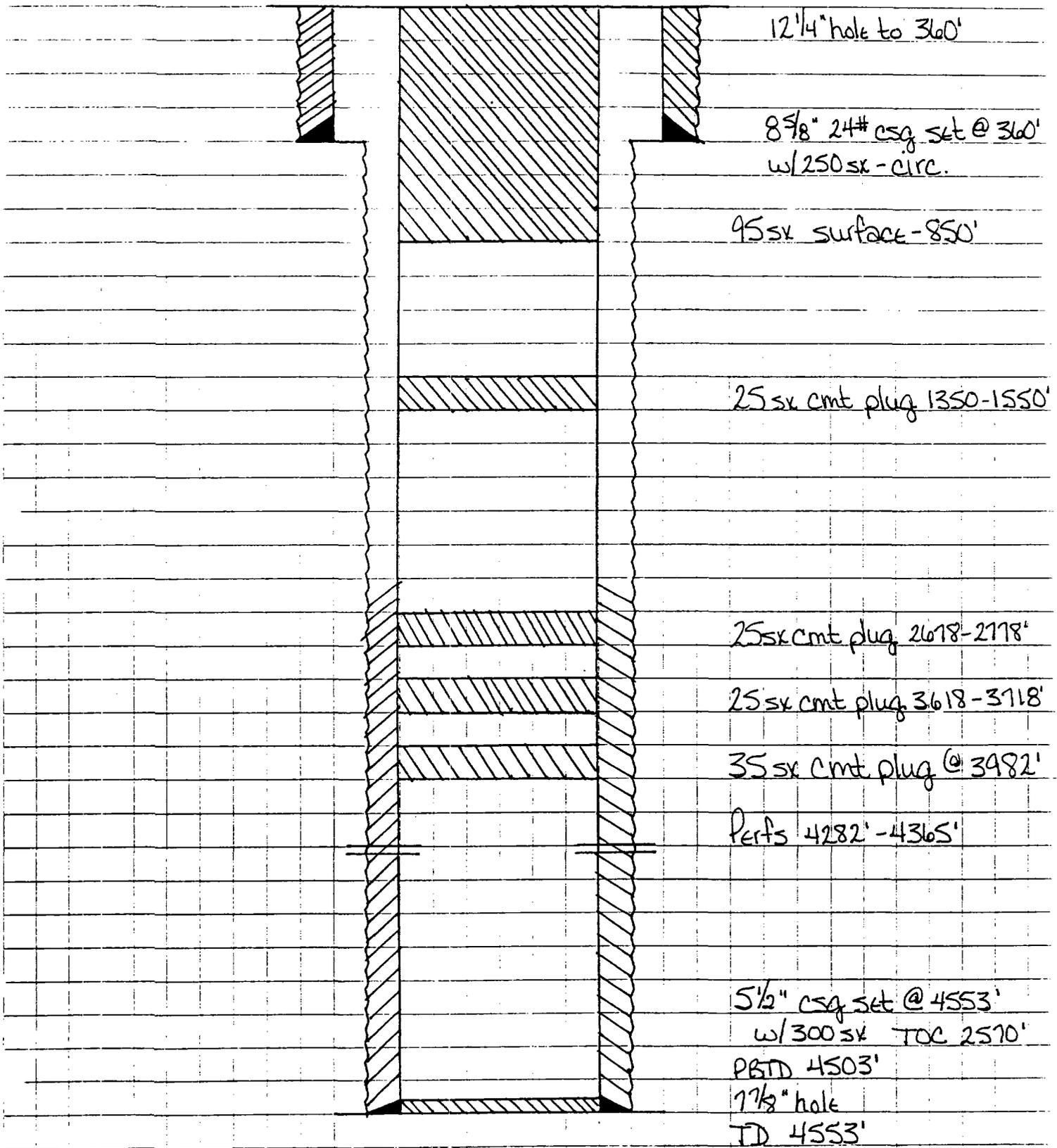
8 5/8" csg set @ 4549' w/ 516 sk cmt

50 sk cmt 5080-6100'

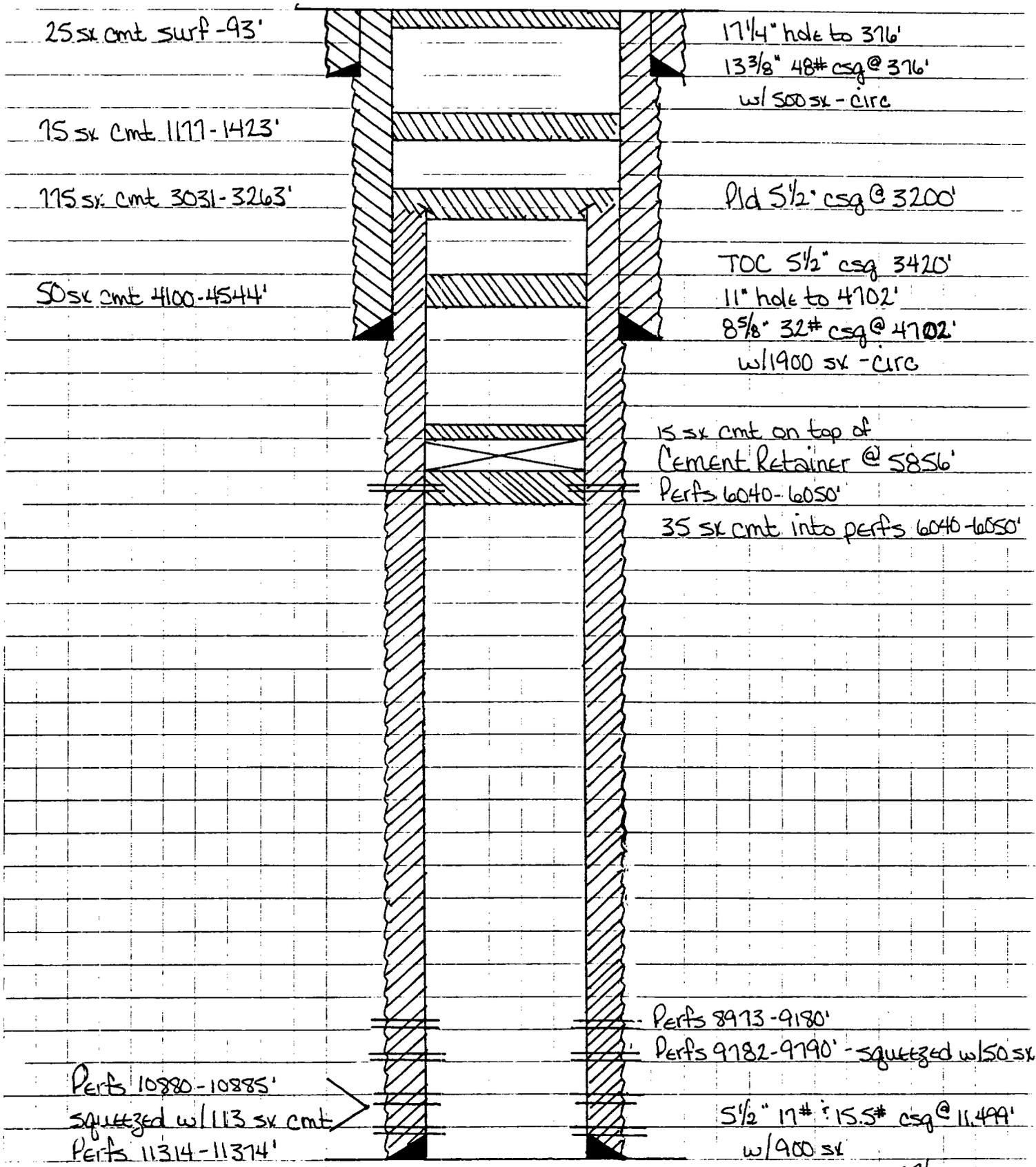
7 7/8" hole to 11,310'

5 1/2" csg set @ 11309' w/ 913 sk cmt  
TD 11,310'

Phillips Petroleum Company  
**Leamex #14**  
660' FNL & 1980' FEL, Unit B  
Section 21-T17S-R33E  
Plugged 11/12/92



Phillips Petroleum Company  
**Leamex #25**  
 1650' FNL & 760' FWL, Unit E  
 Section 21-T17S-R33E  
 Plugged 03/13/83



25 sx cmt surf - 93'

17 1/4" hole to 376'  
 13 3/8" 48# csg @ 376'  
 w/ 500 sx - circ

75 sx cmt 1177 - 1423'

Pld 5 1/2" csg @ 3200'

775 sx cmt 3031 - 3263'

TOC 5 1/2" csg 3420'  
 11" hole to 4702'  
 8 5/8" 32# csg @ 4702'  
 w/ 1900 sx - circ

50 sx cmt 4100 - 4544'

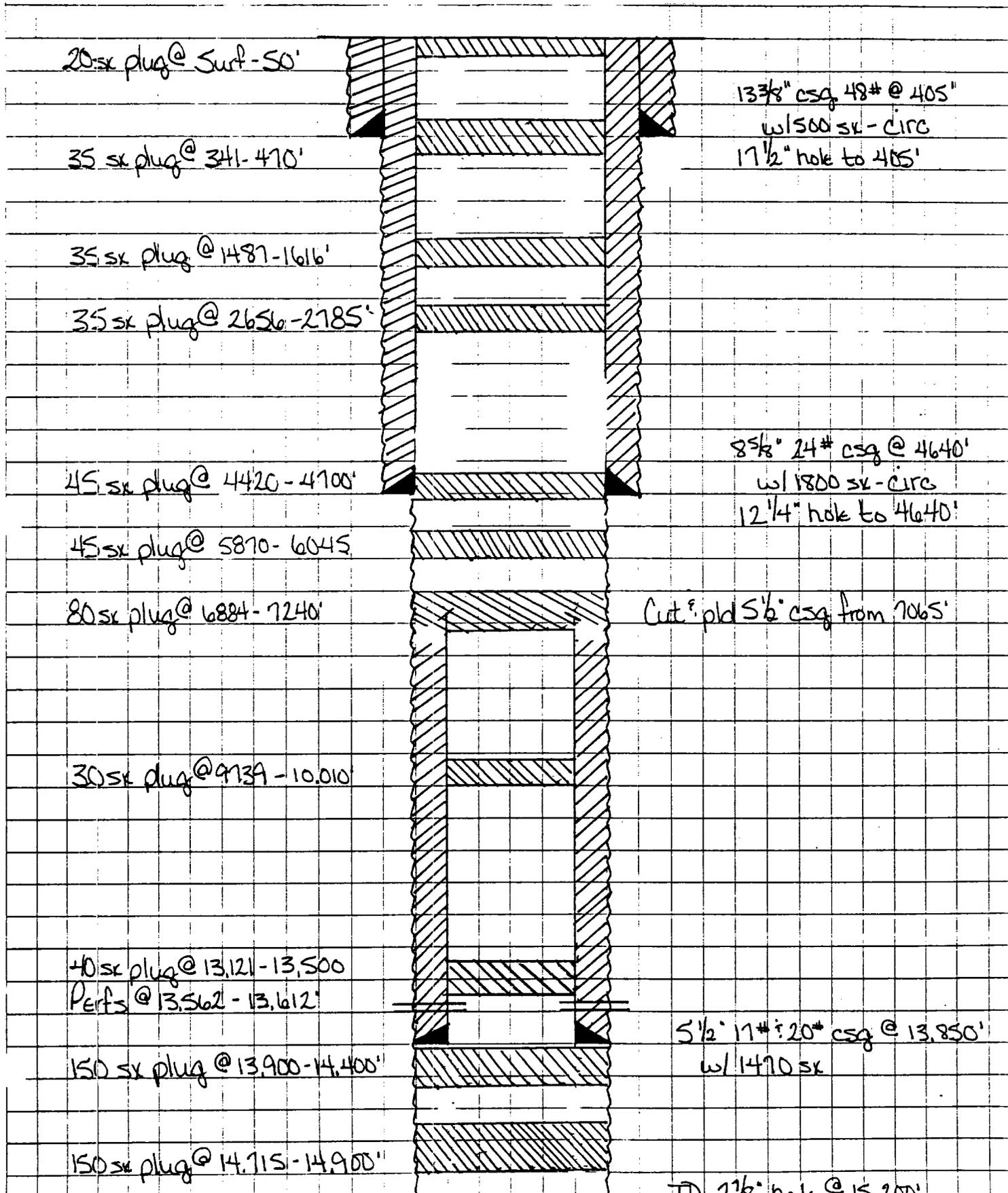
15 sx cmt on top of  
 Cement Retainer @ 5856'  
 Perfs 6040 - 6050'  
 35 sx cmt into perfs 6040 - 6050'

Perfs 8973 - 9180'  
 Perfs 9782 - 9790' - squeezed w/ 50 sx

Perfs 10880 - 10885'  
 squeezed w/ 113 sx cmt  
 Perfs 11314 - 11374'

5 1/2" 17# 15.5# csg @ 11,499'  
 w/ 900 sx

Phillips Petroleum Company  
**Leamex #57**  
 460' FSL & 905' FWL, Unit M  
 Section 16-T17S-R33E  
 Plugged 03/04/97



COOPERATIVE UNIT LINE INJECTION WELL  
AND UNIT LINE INFILL DRILLING AGREEMENT

CAPROCK MALJAMAR UNIT  
PHILLIPS STATE WATERFLOOD PROJECT

THIS AGREEMENT is entered into by The Wiser Oil Company as Operator of the Caprock Maljamar Unit, hereafter referred to as "Wiser", and Shahara Oil, L.L.C., as Operator of the Phillips State Project, hereafter referred to as "Shahara".

RECITALS:

1. Wiser is the Operator of the Caprock Maljamar Unit under the terms of the applicable Unit Agreement and the Unit Operating Agreement for said Unit (the "Unit") and the owner of 100% working interest therein.
2. Shahara is the Operator of the Phillips State Lease NM-2148 (the "Project") and Shahara, et al are the owners of 100% working interest therein.
3. The Unit Area of the Caprock Maljamar Unit includes, among other lands, the E/2 of Section 17, the NE/4 of Section 20 and the NW/4 NW/4 of Section 21, all in Township 17 South, Range 33 East, Lea County, New Mexico, and the Project Area for the Phillips State Project, includes the W/2 of Section 16, in Township 17 South, Range 33 East, Lea County, New Mexico.
4. Wiser and Shahara desire to enter into an agreement to provide for the continued operation of existing injection wells, the reactivation of existing shut-in injection wells, and the conversion of additional wells to injection as provided in Article 1, along the common boundary of the above described lands for the injection of water into one or <sup>50 ft</sup> ~~more~~ of the Grayburg and San Andres formations underlying said lands in order to enhance the recovery of hydrocarbons from their respective Unit/Project. Wiser and Shahara also desire to enter into an agreement to drill up to four infill producing wells on 20 acre spacing units along the common boundary line of the Caprock Maljamar Unit and the Phillips State Project in accordance with Article 7 below.

PLH  
12/16/17

NOW, THEREFORE, in consideration of the mutual benefits to be derived from the covenants and obligations herein contained, Wiser and Shahara agree as follows:

ARTICLE 1

INJECTION WELLS

- 1.1 Wiser currently operates the following active injection wells:

Caprock Maljamar Unit #6 Located in NE/4 NE/4 of Section 17-T17S-R33E  
Caprock Maljamar Unit #12 Located in SE/4 NE/4 of Section 17-T17S-R33E  
Caprock Maljamar Unit #22 Located in NE/4 SE/4 of Section 17-T17S-R33E  
Caprock Maljamar Unit #32 Located in SE/4 SE/4 of Section 17-T17S-R33E  
Caprock Maljamar Unit #44 Located in NE/4 NE/4 of Section 20-T17N-R33E  
Caprock Maljamar Unit #45 Located in NW/4 NW/4 of Section 21-T17N-R33E

These wells shall be equipped, maintained and operated under this agreement, and the covenants of Wiser under this agreement shall be performed at the expense of Wiser as an item of unit expense under the Unit Operating Agreement for the Caprock Maljamar Unit.

- 1.2 Shahara, within thirty (30) days after execution of this agreement, shall make application before the New Mexico Oil Conservation Division to convert to injection or reactivate existing shut-in injection wells as follows:

Exhibit 3

Phillips State #2 Located in NW/4 NW/4 of Section 16-T17S-R33E

Phillips State #1 Located in SW/4 NW/4 of Section 16-T17S-R33E

Phillips State #5 Located in NW/4 SW/4 of Section 16-T17S-R33E

Phillips State #8 Located in SW/4 SW/4 of Section 16-T17S-R33E

Within one hundred twenty (120) days of receipt of approval by the New Mexico Oil Conservation Division, Shahara shall convert, reactivate, and equip the above wells as necessary, for the injection of water into one or <sup>BOTH</sup> ~~more~~ of the ~~Seven Rivers, Queen~~ <sup>PLH 11/16/17</sup> Grayburg, and San Andres formations. These wells shall be equipped, maintained and operated under this agreement, and the covenants of Shahara under this agreement shall be performed at the sole expense and risk of Shahara.

1.3 **Well Log:** Upon execution of this agreement and upon request, each party shall provide the other party with a copy of a porosity log on each of the wells contemplated by this agreement, indicating perforation depth. Each party, upon request, shall also provide the other party with details of workover operations on each of the wells, including stimulation and squeezing operations.

1.4 **Replacement and Substitute Wells:** It is recognized by the parties that the incremental recovery of hydrocarbons reasonably expected from each Unit/Project Area as a result of the injection operations contemplated by this agreement may not justify the drilling of a replacement well in the event a party is unable to continue operations of existing injection wells or is unable to convert its well to an injection well or to obtain governmental authorization to inject fluids into the well. If, as a result of a lack of wellbore integrity or other condition in the hole or formations penetrated, either party is unable after exercising reasonable diligence as would a prudent operator to continue operations of existing injection wells or to convert the wells described in Articles 1.1, 1.2 and 1.2.1 herein to injection wells or to obtain governmental authorization to inject fluids into the Grayburg and San Andres formations, said party shall, within thirty (30) days, notify the other party hereto in writing of the condition of such well and shall have the option but not the obligation to propose either to substitute an existing well therefor, or to drill a replacement well at a location within three hundred (300) feet of the well to be replaced.

If the notifying party has elected to drill a replacement well, it shall, within a reasonable time after giving the above described notice, begin operations for the drilling of the replacement well. If it has chosen to propose a substitute well, the remaining party hereto may either accept or reject the proposed substitute well. If the notifying party proposes a substitute well that is acceptable to the remaining party hereto, the notifying party shall drill and equip said well within one hundred twenty (120) days after receiving the remaining party's written acceptance thereof. If the remaining party hereto rejects the proposed substitute well, such remaining party shall have the option to cease operating any adjacent injection well covered by this agreement.

## ARTICLE 2

### OPERATION

2.1 **Water Supply:** Each party either has constructed or shall construct and maintain facilities necessary for delivery of water to its injection wells and shall furnish water suitable for injection therein. Each party, upon request, shall provide the other party with a water analysis of its injection water.

2.2 **Injection:** Except as otherwise provided in Article 1.4 herein ("Replacement and Substitute Wells"), water injection into each of the proposed conversion injection wells and re-activated injection wells shall commence within one hundred twenty (120) days after receipt of approval by the New Mexico Oil Conservation Division. Injection of water into each injection well covered by this agreement, shall be at rates and pressures mutually agreed upon, preferably below the fracturing pressure of the formation as determined by periodic step-rate injectivity tests. Prior to running a step-rate test, the operating pressure on the well shall be set at a level lower than the lowest fracturing pressures measured by step-rate tests in nearby injection wells completed in the formation. If the rates and pressures cannot be mutually agreed upon, the rate shall be at least 200 barrels of water a day, provided the rate does not result in a bottomhole pressure which is greater than the formation fracturing pressure. Each party, upon request, shall provide the other party details of the

results of each step-rate test and any fall-off tests conducted on its wells. Each month, each party shall provide the other party with a statement showing the average daily injection rate and the average daily injection pressure, for the previous month, along with the cumulative injection volumes, for all wells within 700 feet of the common unit boundary.

2.3 **Injection Profile:** Each party shall run radioactive water tracer surveys as required on its wells. Each party shall, upon request, provide a copy of its injection profile logs to the other party hereto.

2.4 **Metering:** Each party shall be responsible, at its sole cost and expense, for installing and maintaining in good repair, appropriate pressure gauges and water meters for each of the injection wells covered by this agreement.

### ARTICLE 3

#### INTERESTS AND OBLIGATIONS OF PARTIES

3.1 **Interests of Parties:** Nothing in this agreement shall be deemed to be an assignment or a cross-assignment of interests in the respective Unit/Project Areas. This agreement is entered into for the sole purpose of providing for the operation of injection and infill producing wells on the common boundary of the Unit/Project Areas to enhance the recovery of hydrocarbons from each Unit/Project Area so that the party who operates the Unit/Project Area, along with the other owners of interests in production from the Unit/Project Area, may benefit by an increase in ultimate recovery of hydrocarbons from the Unit/Project Area.

3.2 **Obligations of Parties:** The obligations and liabilities of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations as set out in this agreement. It is not the intention of the parties to create, nor shall this agreement be construed to create, a mining or other partnership or association, or to render the parties liable as partners.

### ARTICLE 4

#### FORCE MAJEURE

If either party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, that party shall give to the other party prompt notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than the continuance of, the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, failure of water supply, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

### ARTICLE 5

#### NOTICES

All notices and other communications authorized or required between the parties under this agreement shall be deemed to have been given when such communications in writing shall have been received by fax or United States mail, by the party to whom the notice is given at the following address:

Wiser:

The Wiser Oil Company  
8115 Preston Road, Suite 400  
Dallas, TX 75225  
Attn: Matt Eagleston  
Project Manager

Shahara:

Shahara Oil, L.L.C.  
207 W. McKay  
Carlsbad, NM 88220  
Attn: Perry Hughes

Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to the other party.

## ARTICLE 6

### EFFECTIVE DATE AND TERM OF AGREEMENT

6.1 **Effective Date:** The effective date of this agreement shall be November 1, 1997.

6.2 **Term of Agreement:** This agreement shall be in effect for a period of five (5) years after the effective date hereof and so long thereafter as the Caprock Maljamar Unit, and the Phillips State Project are in effect, unless earlier terminated as hereafter set forth.

This agreement may be terminated at any time after the expiration of such five (5) year term by unanimous agreement of the parties hereto. If the parties are unable to agree, the term of this agreement shall not extend beyond ten (10) years from the cessation of operations attributable to the wells covered in Article 1 and Article 7 hereof.

## ARTICLE 7

### INFILL DEVELOPMENT

In order to further enhance the ultimate recovery of hydrocarbons from both the Caprock Maljamar Unit and the Phillips State Project, Wiser and Shahara each agree to drill and operate two infill producing wells along the common boundary of the Unit/Project at the approximate locations described on Exhibit "A" attached hereto. Such wells shall be drilled and completed within one hundred eighty (180) days from the execution of this agreement. Wiser and Shahara recognize that in order to be able to drill these infill wells at the proposed locations, each company will be required to obtain unorthodox location approval from the New Mexico Oil Conservation Division. Accordingly, Wiser and Shahara hereby covenant to execute any waivers necessary for the remaining party hereto to administratively obtain such unorthodox locations in accordance with applicable New Mexico Oil Conservation Division rules.

In order to share in the risks and rewards of drilling the proposed infill wells, Wiser and Shahara further agree that an operating agreement between the parties, designating Shahara as operator of those infill wells located on the Phillips State Lease, and further designating Wiser as operator of those infill wells located on the Caprock Maljamar Unit, which shall be executed simultaneously with this agreement, is attached hereto as Exhibit "B" and made a part hereof. Said operating agreement shall govern the drilling, completion and all other operations associated with such infill wells. Notwithstanding the current working interest ownership of the Phillips State Project and the Caprock Maljamar Unit as recited in paragraphs 1 and 2 above, the working interest of the parties under said operating agreement shall be as stated in Exhibit "A".

The operating agreement and exhibits thereto shall become effective as of the effective date of this agreement and shall govern any operations not expressly covered by this agreement. In the event of a conflict between the terms of the Operating Agreement attached hereto as Exhibit "B" and the terms of this agreement, the terms of this agreement shall prevail.

Production attributable to the Shahara operated infill wells as set forth on Exhibit "A" shall be commingled into an existing Phillips State tank battery. Production attributable to the Wiser operated infill wells as set forth on Exhibit "A" shall be commingled into an existing Caprock

Maljamar Unit tank battery of Wiser's choice. Wiser and Shahara agree that production from such infill wells shall be allocated based upon monthly well tests. Well testing shall be accomplished utilizing a test heater treater or test separator. Produced fluid from a well to be tested will be segregated from the field production and diverted to a test vessel where the separation of oil, gas and water will occur. Only one well shall be tested at a time. No other wells shall be allowed to produce into the test vessel when another well is being tested. Oil and water volumes exiting the vessel will be metered or sent to a test tank for direct measurement.

If metering oil volumes, meter accuracy should be at least  $\pm 1.0\%$  with a repeatability of at least  $\pm 0.05\%$ . Oil meters should be calibrated on a quarterly basis with each party having the right, upon thirty (30) days written notice, to witness such oil meter calibrations. Any time the accuracy of a meter is in question either party with reasonable written notification may inspect the other party's oil meter at their own expense.

Gas volumes may be allocated based on the applicable Project or Unit GOR, or gas volumes may be measured using an orifice well tester connected to the gas outlet on the heater treater or test separator.

## ARTICLE 8

### COMPLIANCE WITH LAWS AND REGULATIONS

8.1 Laws, Regulations and Orders: This agreement shall be subject to and operations hereunder shall be conducted in compliance with the conservation laws of the State of New Mexico, the valid rules, regulations and orders of the New Mexico Oil Conservation Division and all other applicable federal, state and local laws, ordinances, rules, regulations and orders.

8.2 Governing Law: This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, nonperformance, breach, remedies, procedures, rights, duties and interpretations or construction, shall be governed and determined by the law of the State of New Mexico.

## ARTICLE 9

### INDEMNITY

Each party hereto agrees to protect, defend, indemnify and hold harmless the other party from and against any claims, demands, causes of action, losses and/or liabilities of every kind and character arising out of, incident to, or in connection with such other party's water injection operations pursuant to the provisions of this agreement excepting, however, any claim, demand, cause of action, loss and/or liability which may result from the gross negligence or willful misconduct of such other party, its agents, officers, or employees. Such indemnity shall include, without limitation, reasonable attorney's fees, court costs and similar expenses. Each party hereby releases the other party from any liability for damages to the releasing party's interest in and to the releasing party's land described herein, arising out of, incident to, or in connection with the operations contemplated by this agreement, provided such operations are conducted in accordance with the terms and conditions of this agreement and such damage is not the result of gross negligence or willful misconduct of such other party.

## ARTICLE 10

### MISCELLANEOUS

10.1 Entire Agreement: This agreement embodies the entire agreement between the parties relating to the subject matter hereof and shall supersede all other agreements, assurances, conditions, covenants or terms relating hereto, whether written or verbal or antecedent or contemporaneous with

the execution thereof. This agreement may be modified or amended only by an instrument in writing signed by both parties.

10.2 **Captions:** Captions have been inserted for reference purposes only and shall not define or limit the terms of this agreement.

10.3 **Binding Effect:** This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective successors, legal representatives and assigns. This agreement may be executed in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

WITNESS EXECUTION this 19<sup>th</sup> day of NOVEMBER, 1997.

THE WISER OIL COMPANY

By:   
Title: W. B. Phillips  
Attorney-in-Fact

SHAHARA OIL, L.L.C.

By:   
Title: Executive Officer

LOMETA HUDNALL COX TRUST #2

By: \_\_\_\_\_

OGDEN SHARON HUDNALL TRUST #2

By: \_\_\_\_\_

LOMETA ANNE COX

\_\_\_\_\_

OGDEN SHARON HUDNALL

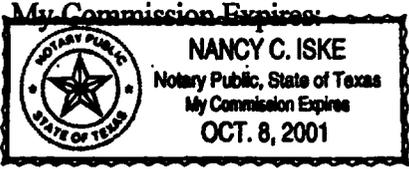
\_\_\_\_\_

DALE McCARTER

\_\_\_\_\_

STATE OF TEXAS )  
 ) SS  
COUNTY OF DALLAS )

The foregoing instrument was acknowledged before me this 19<sup>th</sup> day of November, 1997, by W. B. Phillips, Attorney-in-Fact of The Wiser Oil Company, a Delaware corporation, on behalf of the corporation.



Nancy C. Iske  
Notary Public

STATE OF NEW MEXICO )  
 ) SS  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this 16<sup>th</sup> day of DECEMBER, 1997, by PERRY L. HUGHES, EXECUTIVE OFFICER of Shahara Oil, L.L.C., a NM Co., on behalf of the Company.

My Commission Expires: November 6, 2000  
Thalia Marshall  
Notary Public

STATE OF New Mexico )  
 ) SS  
COUNTY OF Eddy )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, \_\_\_\_\_ of the Lometa Hudnall Cox Trust #2.

My Commission Expires:  
\_\_\_\_\_  
Notary Public

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

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, \_\_\_\_\_ of the Ogden Sharon Hudnall Trust #2.

My Commission Expires:  
\_\_\_\_\_  
Notary Public

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

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by Lometa Anne Cox, an individual.

My Commission Expires:

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

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

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by Ogden Sharon Hudnall, an individual.

My Commission Expires:

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

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

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by Dale McCarter, an individual.

My Commission Expires:

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

**EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated November 1, 1997 by and between The Wiser Oil Company and Shahara Oil, L.L.C.

<b>I. CONTRACT AREA:</b>		<b>OPERATOR:</b>
CMU #400	1330' FSL & 110' FEL Sec. 17-T17S-R33E	Wiser
CMU #401	110' FSL & 110' FEL Sec. 17-T17S-R33E	Wiser
PHILLIPS STATE #100	1320' FNL & 10' FWL Sec. 16-T17S-R33E	Shahara
PHILLIPS STATE #101	2640' FNL & 10' FWL Sec. 16-T17S-R33E	Shahara

**II. ADDRESSES FOR NOTICE PURPOSES:**

The Wiser Oil Company 8115 Preston Road, Ste. 400 Dallas, Texas 75225 Attn: Matt Eagleston Project Manager	Shahara Oil, L.L.C. 207 W. McKay Carlsbad, NM 88220 Attn: Perry Hughes
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**III. PERCENTAGE WORKING INTERESTS OF THE PARTIES:**

<u>Wells</u>	<u>Parties</u>	<u>Percentage Working Interest in Contract Area</u>
CMU #400	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Total	100.00%
CMU #401	The Wiser Oil Company	75.00%
	Shahara Oil, L.L.C.	<u>25.00%</u>
	Totals	100.00%
PHILLIPS STATE #100	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Totals	100.00%
PHILLIPS STATE #101	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Totals	100.00%

**IV. DESCRIPTION OF COMMITTED LEASEHOLD:**

**A. Leases committed by The Wiser Oil Company (100%):**

LESSOR	LESSEE	LEASE DATE	LESSOR ROY.
NM-B-2148	Phillips Petroleum	9-11-33	12.5%
NM-B-2148-03			
NM-B-2148-04			

**B. Leases committed by Shahara Oil, L.L.C. (100%):**

LESSOR	LESSEE	LEASE DATE	LESSOR ROY.
NM-B-2148	Phillips Petroleum	9-11- <del>33</del> 33 PLH 12/16/97	12.5%

EXHIBIT "B"

Attached to and made a part of that certain Cooperative Unit Line Injection Well and Unit Line Infill Drilling Agreement dated November 1, 1997 by and between The Wiser Oil Company, and Shahara Oil, L.L.C.

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1, 19 97,

OPERATOR See Exhibit "A"

CONTRACT AREA Limited to the infill development wells as set forth in Exhibit "A" attached hereto.

COUNTY ~~OF~~ OF Lea STATE OF New Mexico

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between The Wiser Oil Company and Shahara Oil, L.L.C. both parties, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators", in accordance with Exhibit "A" attached hereto.

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

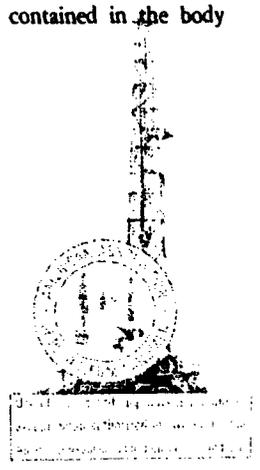
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- [X] A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.
[ ] B. Exhibit "B", Form of Lease.
[X] C. Exhibit "C", Accounting Procedure.
[X] D. Exhibit "D", Insurance.
[X] E. Exhibit "E", Gas Balancing Agreement.
[X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
[ ] G. Exhibit "G", Tax Partnership.

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.



ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of total burdens due which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.  
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

ARTICLE IV  
continued

1  Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination  
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties  
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-  
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above  
5 functions.

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8 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection  
9 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling  
10 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.  
11 This shall not prevent any party from appearing on its own behalf at any such hearing.

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above  
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-  
14 ticipate in the drilling of the well.

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16 **B. Loss of Title:**

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18 ~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~  
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~  
20 ~~from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-~~  
21 ~~tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~  
22 ~~and gas leases and interests; and.~~

23 ~~(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be~~  
24 ~~entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,~~  
25 ~~but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

26 ~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has~~  
27 ~~been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-~~  
28 ~~curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract~~  
29 ~~Area by the amount of the interest lost;~~

30 ~~(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is~~  
31 ~~increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-~~  
32 ~~terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such~~  
33 ~~well;~~

34 ~~(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has~~  
35 ~~failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties~~  
36 ~~who bore the costs which are so refunded;~~

37 ~~(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be~~  
38 ~~borne by the party or parties whose title failed in the same proportion in which they shared in such prior production; and,~~

39 ~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest~~  
40 ~~claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in~~  
41 ~~connection therewith.~~

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43 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well~~  
44 ~~payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,~~  
45 ~~there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required~~  
46 ~~payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,~~  
47 ~~which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the~~  
48 ~~date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in~~  
49 ~~the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the~~  
50 ~~required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to~~  
51 ~~the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it~~  
52 ~~shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled~~  
53 ~~or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

54 ~~(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis,~~  
55 ~~up to the amount of unrecovered costs;~~

56 ~~(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of~~  
57 ~~oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease~~  
58 ~~termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said~~  
59 ~~portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,~~

60 ~~(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest~~  
61 ~~lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

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63 ~~3. Other Losses: All losses incurred, ~~under the provisions of Article VIII.B. and VIII.C. shall be joint losses~~  
64 ~~and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of~~  
65 ~~the Contract Area.~~~~

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ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

See Exhibit "A" shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. 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 Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:

Four (4) infill development wells to be drilled in accordance with the terms of the Cooperative Unit Line Injection Well and Unit Line Infill Drilling Agreement dated November 1, 1997 between The Wiser Oil Company and Shahara Oil, L.L.C.

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI  
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the  
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.  
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6 **B. Subsequent Operations:**  
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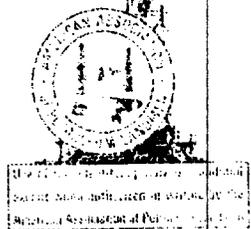
8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided  
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-  
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice  
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-  
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be  
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within  
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or  
17 response given by telephone shall be promptly confirmed in writing.  
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice  
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-  
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-  
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,  
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain  
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-  
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the  
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and  
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-  
30 dance with the provisions hereof as if no prior proposal had been made.  
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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option  
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties  
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of  
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is  
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all  
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is  
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-  
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-  
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-  
43 ditions of this agreement.  
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-  
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and  
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for  
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,  
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.  
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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have  
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such  
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.  
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their  
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-  
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,  
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ARTICLE VI  
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 100 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

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53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI  
continued

1 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,  
2 the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-  
3 Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production  
4 therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging  
5 back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of  
6 the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

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10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall  
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such  
12 well conforms to the then-existing well spacing pattern for such source of supply.

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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.  
17 except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well  
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-  
19 duction, ceases to produce in paying quantities.

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23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been  
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a  
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening  
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever  
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-  
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently  
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion  
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-  
31 ties.

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35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall  
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole  
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other  
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the  
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal  
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

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44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in  
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's  
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the  
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

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55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and  
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time  
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-  
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-  
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-  
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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65 **C. TAKING PRODUCTION IN KIND:**

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67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,  
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for  
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any  
70 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~~

ARTICLE VI  
continued

~~required to pay for only its proportionate share of such part of Operator's surface facilities which it uses~~

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, ~~for the account of the non-paying party at the best price obtainable in the area for such production.~~ Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by 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 (1) year, \* and shall account to such party for the actual net proceeds received for such production, if sold, or the current market price if purchased by operator.

In the event one or more parties' separate disposition of its share of the gas 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 hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information. Notwithstanding anything to the contrary, a non-operator who is in default under Article VII B shall have no rights under this Article VI D.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation, or formations covered thereby, such lease to be on the form attached as Exhibit

**ARTICLE VI**  
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the  
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the  
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of  
4 interests in the remaining portion of the Contract Area.

5  
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation or production from  
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing intervals assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.

13  
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between  
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be  
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified  
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article  
18 VI.E.

**ARTICLE VII.**  
**EXPENDITURES AND LIABILITY OF PARTIES**

23 **A. Liability of Parties:**

24  
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor  
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

30 **B. Liens and Payment Defaults:**

31  
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share  
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon  
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the  
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-  
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42  
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by  
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that  
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain  
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

48 **C. Payments and Accounting:**

49  
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development  
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-  
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
53 showing expenses incurred and charges and credits made and received.

54  
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance  
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding  
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together  
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted  
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within  
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount  
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-  
62 penses to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

64 **D. Limitation of Expenditures:**

65  
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

## ARTICLE VII

## continued

1  **Option No. 1:** All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including  
2 necessary tankage and/or surface facilities.

3  
4  **Option No. 2:** All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its  
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice  
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have thirty (30)  
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion  
8 attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well,  
9 including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period provided shall  
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all, of the parties  
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging  
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less  
13 than all parties.

14  
15 **2. Rework or Plug Back:** Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or  
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall  
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage  
18 and/or surface facilities.

19  
20 **3. Other Operations:** Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
21 to require an expenditure in excess of twenty-five thousand Dollars (\$25,000.00)  
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been  
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required  
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other  
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator to request  
27 an information copy thereof for any single project costing in excess of twenty-five thousand  
28 Dollars (\$25,000.00), but less than the amount first set forth above in this paragraph.

29  
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31  
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the  
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-  
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on  
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of  
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-  
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-  
38 visions of Article IV.B.7.3.

39  
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production  
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by  
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify  
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment  
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45  
46 **F. Taxes:**

47  
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property  
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they  
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not  
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-  
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-  
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or  
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-  
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding  
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax  
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in  
58 the manner provided in Exhibit "C".

59  
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-  
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any  
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-  
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as  
65 provided in Exhibit "C".

66  
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to  
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII  
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.  
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party, without warranty of title, except as to acts by, through, or under the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII  
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be  
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions  
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-  
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
9 D. Maintenance of Uniform Interest:

10 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no  
11 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,  
12 equipment and production unless such disposition covers either:

- 13 1. the entire interest of the party in all leases and equipment and production; or
- 14 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

15  
16  
17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
18 and shall be made without prejudice to the right of the other parties.

19 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may  
20 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
21 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
22 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
23 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
24 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

25  
26  
27 E. Waiver of Rights to Partition:

28 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
29 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
30 interest therein.

31  
32  
33 ~~F. Preferential Right to Purchase:~~

34  
35 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~  
36 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~  
37 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~  
38 ~~of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase~~  
39 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~  
40 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~  
41 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~  
42 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~  
43 ~~pany, or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

44  
45  
46  
47 ARTICLE IX.  
48 INTERNAL REVENUE CODE ELECTION  
49

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-  
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-  
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the  
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,  
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further  
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the  
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other  
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,  
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-  
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-  
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the  
66 computation of partnership taxable income.

ARTICLE X.  
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder 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, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.

ARTICLE XI.  
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.  
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.  
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts of setting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.  
OTHER PROVISIONS

ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

~~XXXXXXXXXX~~

ATTEST:

Shahara Oil, L.L.C. as Operator and  
as Non-Operator as set forth on  
Exhibit "A"

By: Thalia Marshall  
Title: Agent  
Printed Name: Thalia Marshall

By: Perry L. Hughes  
Title: Executive Officer  
Printed Name: Perry L. Hughes

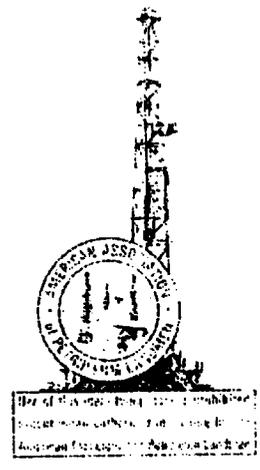
~~XXXXXXXXXXXX~~

ATTEST:

The Wiser Oil Company  
as Operator and as Non-Operator as  
set forth on Exhibit "A"

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Printed Name: \_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Printed Name: \_\_\_\_\_



**EXHIBIT "A"**

Attached to and made a part of that certain Joint Operating Agreement dated November 1, 1997 by and between The Wiser Oil Company and Shahara Oil, L.L.C.

<b>I. CONTRACT AREA:</b>		<b>OPERATOR:</b>
CMU #400	1330' FSL & 110' FEL Sec. 17-T17S-R33E	Wiser
CMU #401	110' FSL & 110' FEL Sec. 17-T17S-R33E	Wiser
PHILLIPS STATE #100	1320' FNL & 10' FWL Sec. 16-T17S-R33E	Shahara
PHILLIPS STATE #101	2640' FNL & 10' FWL Sec. 16-T17S-R33E	Shahara

**II. ADDRESSES FOR NOTICE PURPOSES:**

The Wiser Oil Company 8115 Preston Road, Ste. 400 Dallas, Texas 75225 Attn: Matt Eagleston Project Manager	Shahara Oil, L.L.C. 207 W. McKay Carlsbad, NM 88220 Attn: Perry Hughes
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**III. PERCENTAGE WORKING INTERESTS OF THE PARTIES:**

<u>Wells</u>	<u>Parties</u>	<u>Percentage Working Interest in Contract Area</u>
CMU #400	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Total	100.00%
CMU #401	The Wiser Oil Company	75.00%
	Shahara Oil, L.L.C.	<u>25.00%</u>
	Totals	100.00%
PHILLIPS STATE #100	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Totals	100.00%
PHILLIPS STATE #101	The Wiser Oil Company	50.00%
	Shahara Oil, L.L.C.	<u>50.00%</u>
	Totals	100.00%

**IV. DESCRIPTION OF COMMITTED LEASEHOLD:**

**A. Leases committed by The Wiser Oil Company (100%):**

LESSOR	LESSEE	LEASE DATE	LESSOR ROY.
NM-B-2148	Phillips Petroleum	9-11-33	12.5%
NM-B-2148-03			
NM-B-2148-04			

**B. Leases committed by Shahara Oil, L.L.C. (100%):**

LESSOR	LESSEE	LEASE DATE	LESSOR ROY.
NM-B-2148	Phillips Petroleum	9-11- <del>31</del> 33 PLH 12/16/97	12.5%

EXHIBIT " C "

Attached to and made a part of that certain Joint Operating Agreement dated November 1, 1997,  
by and between The Wiser Oil Company and Shahara Oil, L.L.C.

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.

thirty (30)

B. Each Non-Operator shall pay its proportion of all bills within ~~thirty (30)~~ 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, Dallas 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 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- 1  
2 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
3 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
4 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.  
5  
6 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
7 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
8 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
9 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
0 Parties.  
1  
2 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
3 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
4 amount most recently recommended by the Council of Petroleum Accountants Societies.  
5

6 **7. Services**

7  
8 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
9 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
10 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
11 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
12 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.  
13

14 **8. Equipment and Facilities Furnished By Operator**

- 15  
16 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
17 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
18 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
19 exceed eight percent ( 8.00 %) per annum. Such rates shall not exceed average commercial  
20 rates currently prevailing in the immediate area of the Joint Property.  
21  
22 B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
23 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
24 published by the Petroleum Motor Transport Association.  
25

26 **9. Damages and Losses to Joint Property**

27  
28 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
29 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
30 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
31 soon as practicable after a report thereof has been received by Operator.  
32

33 **10. Legal Expense**

34  
35 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and  
36 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to  
37 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of  
38 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be  
39 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section  
40 I, Paragraph 3.  
41

42 **11. Taxes**

43  
44 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
45 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
46 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
47 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
48 hereto in accordance with the tax value generated by each party's working interest.  
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70

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 ( X ) 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 ( X ) 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 ( X ) 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 \$ 4,500.00  
61 (Prorated for less than a full month)

62  
63 Producing Well Rate \$ 450.00  
64

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

2. Overhead - Major Construction

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

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

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

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

### 3. Catastrophe Overhead

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

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

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

### 4. Amendment of Rates

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

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

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

### 1. Purchases

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

### 2. Transfers and Dispositions

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

#### A. New Material (Condition A)

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

- (a) Tubular goods, sized  $2\frac{3}{8}$  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

(2) Condition D

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

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.  
70

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

**3. Special Inventories**

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

**4. Expense of Conducting Inventories**

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

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**EXHIBIT "D"**

Attached hereto and made a part of that certain Joint Operating Agreement dated November 1, 1997 by and between The Wiser Oil Company and Shahara Oil, L.L.C.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- (a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of New Mexico, including employer's liability.
- (b) Comprehensive general liability insurance, excluding products: A limit of \$1,000,000.00 each occurrence for bodily injuries, \$2,000,000.00 aggregate. Property damage liability limit being \$1,000,000.00 each occurrence, \$2,000,000.00 aggregate.
- © Automobile public liability and property damage insurance. Limits of bodily injury \$1,000,000.00 each person; \$1,000,000.00 each occurrence; property damage \$1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of New Mexico and to carry such other insurance in such amounts as the Operator shall deem necessary.

1 **NOTE:** Instructions For Use of Gas Balancing  
2 Agreement **MUST** be reviewed before finalizing this  
3 document.

7 EXHIBIT "E"

8 GAS BALANCING AGREEMENT ("AGREEMENT")  
9 ATTACHED TO AND MADE PART OF THAT CERTAIN  
10 OPERATING AGREEMENT DATED November 1, 1997

11 BY AND BETWEEN The Wiser Oil Company, \_\_\_\_\_,  
12 AND Shahara Oil, L.L.C. ("OPERATING AGREEMENT")  
13 RELATING TO THE Grayburg Jackson AREA,  
14 Lea COUNTY/~~PARISH~~, STATE OF New Mexico

16 1. DEFINITIONS

17 The following definitions shall apply to this Agreement:

18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales  
19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are  
20 representative of prices and delivery conditions existing under other similar agreements in the area between  
21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.

22 1.02 "Balancing Area" shall mean (select one):

- 23  each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a  
24 single well is completed in two or more producing intervals, each producing interval from which the Gas  
25 production is not commingled in the wellbore shall be considered a separate well.
- 26  all of the acreage and depths subject to the Operating Agreement.
- 27  \_\_\_\_\_
- 28 \_\_\_\_\_
- 29 \_\_\_\_\_
- 30 \_\_\_\_\_

31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced  
32 from the Balancing Area during each month.

33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified  
34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made  
35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by  
36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,  
37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full  
39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic  
41 foot of space at a standard pressure base and at a standard temperature base.

42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat  
43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a  
44 constant pressure of 14.73 pounds per square inch absolute.

45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the  
46 event this Agreement is not employed in connection with an operating agreement, the individual or entity  
47 designated as the operator of the well(s) located in the Balancing Area.

48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than  
49 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in  
51 the cumulative quantity of all Gas produced from the Balancing Area.

52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,  
53 transferees and assigns.

54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the  
55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding  
57 royalties, production payments or similar interests.

58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than  
59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its  
61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

62 1.16  (Optional) "Winter Period" shall mean the month(s) of \_\_\_\_\_ in one  
63 calendar year and the month(s) of \_\_\_\_\_ in the succeeding calendar year.

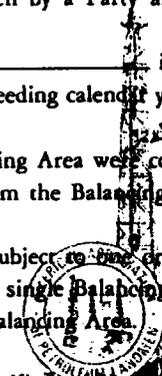
64 2. BALANCING AREA

65 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered  
66 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area  
67 measured in (Alternative 1)  Mcfs or (Alternative 2)  MMBtus.

68 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more  
69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area  
70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 3. RIGHT OF PARTIES TO TAKE GAS

72 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, in writing or other identifying description  
73 nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating  
74 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other



in accordance with each Party's interest in the well

requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement, provided, however, the well is capable of delivering the nominated volume for the applicable Party or Parties.

3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced Party in the proportion that its Percentage interest in the Balancing Area bears to the total Percentage interests of all Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not taken shall then be made available to the other Parties in the proportion that their respective Percentage interests in the Balancing Area bear to the total Percentage Interests of such Parties.

3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking Party.

3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any Gas in excess of three hundred percent (300%) of its Percentage interest of the Balancing Area's then-current Maximum Monthly Availability, unless agreed to by all Parties hereto, provided, however, that this limitation shall not apply to the extent that it would preclude production that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency, mode of operation, production facility capabilities and pipeline pressures.

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell, if it so elects, any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof 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. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

#### 4. IN-KIND BALANCING

reasonable notice

4.1 Effective the first day of any calendar month following/at least thirty (30) days' prior written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

~~4.2  (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the ( ) months immediately preceding the Winter Period.~~

~~4.2  (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, an Overproduced Party will be required to provide more than ( ) percent (( ) %) of its Full Share of Current Production for Makeup Gas during the Winter Period.~~

4.3  (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

#### 5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ~~forty-five (45)~~ <sup>sixty (60)</sup> days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit will be charged to the account of the Party failing to provide the required data.

#### 6. PAYMENTS ON PRODUCTION

6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas actually taken by such Party.

~~6.2  (Alternative 1 - Encumbrances) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty~~

~~owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of Current Production.~~

~~6.2.1  (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of Section 7.5.~~

6.2  (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to whom it is accountable based on the volume of Gas actually taken for its account.

6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date required by such governmental authority, and the method provided for herein shall be thereby superseded.

## 7. CASH SETTLEMENTS

7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the methodology set out in Section 7.4.

~~7.3  (Alternative 1 - Direct Party to Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the Operator of the Gas imbalance settled by the Overproduced Party's payment.~~

7.3  (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator will have no further responsibility with regard to such settlement.

7.3.1  (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have the right at any time upon thirty (30) days' prior written notice to all other Parties to demand that any settlements due such Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

7.4  (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the order of accrual.

~~7.4  (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the Balancing Area.~~

7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

7.5.1  (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the Overproduction.

~~7.5.2  (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction will be valued for purposes of cash settlement at the prices received by the Overproduced Party for the sale of the residue gas attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been extracted from the Overproduction.~~

7.5.2  (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons extracted from the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

Balancing Area under Arms Length Agreements during the months to which such Overproduction is attributed. In the event that no sales under Arms Length Agreements were made during any such month, the cash settlement for such month will be based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing bulletin.

Interest compounded at the rate of \_\_\_\_\_ percent (\_\_\_\_ %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion to their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest. ~~The Operator shall also be required to pay such interest if it has received payment from any Overproduced Party~~

In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties fail to reach agreement on an in-kind settlement.

7.9  (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental authority.

~~7.10  (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party may, in its sole discretion, make cash settlement(s) with the Underproduced Parties covering all or part of its outstanding Gas imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30) days after the settlement is made.~~

8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after thirty (30) days' prior written notice to the Operator and shall last no longer than seven (7) ~~days~~ days including prior shut-in time.

9. OPERATING COSTS

Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in proportion to its Percentage Interest in the Balancing Area.

10. LIQUIDS

The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated for the joint account in accordance with their Percentage Interests in the Balancing Area.

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Bru-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the Operating Agreement, the provisions of this Agreement shall govern.

12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of or in connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other than Operator) to pay any amounts owed pursuant to the terms hereof.

12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

but failed to timely pay the Underproduced party.

and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected, and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to include an associated Optional provision.

12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any such person or entity.

12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the Balancing Area.

12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one)  as if such Party were taking its full share of Current Production during each relevant tax period in accordance with such regulations, insofar as same relate to entitlement method tax computations; or  based on the quantity of Gas taken for its account in accordance with such regulations, insofar as same relate to sales method tax computations.

13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall cause its assignee or other transferee to assume its obligations hereunder.

~~13.2  (Optional Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement including but not limited to the provisions of Section 13.1 hereof or in the Operating Agreement to the contrary, and subject to the provisions of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are Parties hereto in such Balancing Area of such fact at least \_\_\_\_\_ (\_\_\_\_\_) days prior to closing the transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within \_\_\_\_\_ (\_\_\_\_\_) days after receipt of the Overproduced Party's notice, a cash settlement of its Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60) days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in Sections 7.3 through 7.6 hereof, and shall bear interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance with the provisions of Section 13.1 hereof.~~

13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

14. OTHER PROVISIONS

See attachment.

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#### 14. OTHER PROVISIONS

- 14.1 Any Underproduced Party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same JOA must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

(GBA)

1 15. COUNTERPARTS

2 This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute  
3 a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in  
4 the Balancing Area equal to or greater than a \_\_\_\_\_ percent (\_\_\_\_%) therein fail(s) to execute this  
5 Agreement on or before \_\_\_\_\_, this Agreement shall not be binding upon any Party and shall be of  
6 no further force and effect.

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the \_\_\_\_\_ day of \_\_\_\_\_

8  
9  
10 ATTEST OR WITNESS:

OPERATOR

11 \_\_\_\_\_

12 \_\_\_\_\_ BY: \_\_\_\_\_

13 \_\_\_\_\_

Type or print name

Title \_\_\_\_\_

Date \_\_\_\_\_

Tax ID or S.S. No. \_\_\_\_\_

18  
19 NON-OPERATORS

20  
21 Shallia Marshall

20 STAHARA OIL, LLC  
21 BY: Perry L. Hughes  
22 PERRY L. HUGHES

Type or print name

23  
24 Title EXECUTIVE OFFICER

25 Date 12/16/97

26 Tax ID or S.S. No. \_\_\_\_\_

27  
28  
29 \_\_\_\_\_ BY: \_\_\_\_\_

30 \_\_\_\_\_

Type or print name

31 Title \_\_\_\_\_

32 Date \_\_\_\_\_

33 Tax ID or S.S. No. \_\_\_\_\_

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ACKNOWLEDGMENTS

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of \_\_\_\_\_ )

) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_

\_\_\_\_\_ by \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires: \_\_\_\_\_

Acknowledgment in representative capacity:

State of \_\_\_\_\_ )

) ss.

County of \_\_\_\_\_ )

This instrument was acknowledged before me on \_\_\_\_\_

\_\_\_\_\_ by \_\_\_\_\_ JS

\_\_\_\_\_ of \_\_\_\_\_

(Seal, if any) \_\_\_\_\_

Title (and Rank) \_\_\_\_\_

My commission expires \_\_\_\_\_



## EXHIBIT "F"

Attached hereto and made a part of that certain Joint Operating Agreement dated November 1, 1997, by and between The Wiser Oil Company and Shahara Oil, L.L.C.

### EQUAL EMPLOYMENT OPPORTUNITY AND NON-DISCRIMINATION SUPPLEMENT

The term "Contractor", as used herein shall mean the party designated or acting as contractor, Operator or Seller in the foregoing agreement, of which this supplement is a part.

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

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

**Contractor may request the United States to enter into such litigation to protect the interests of the United States.**

**Contractor acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder. Contractor further acknowledges that it may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply the other party or parties to the foregoing agreement with a copy of such program if they so request.**

**Contractor certifies that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Contractor agrees to obtain similar certification from its subcontractor prior to the award of subcontract which are not exempt from the provisions of the equal opportunity clause.**

A.A.P.L. FORM 610 - 1989  
MODEL FORM OPERATING AGREEMENT

Use of this operating agreement is prohibited  
except when authorized in writing by the  
American Association of Petroleum Landmen

OPERATING AGREEMENT

DATED AS OF

July \_\_\_\_\_, 1997

OPERATOR SHAHARA OIL, LLC

CONTRACT AREA W/2 SECTION 16, T17S, R33E

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

COUNTY OR PARISH OF LEA, STATE OF NEW MEXICO

COPYRIGHT 1989 — ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 4100 FOSSIL CREEK BLVD.  
FORT WORTH, TEXAS, 76137, APPROVED FORM.  
A.A.P.L. NO. 610 - 1989

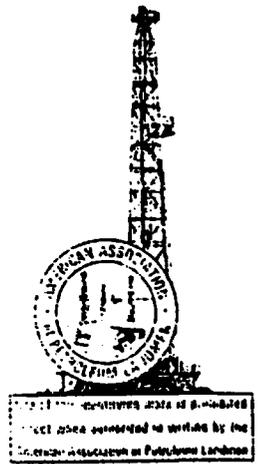
Exhibit 4

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between SHAHARA OIL, LLC hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser.

E. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located.

H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

J. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

L. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

P. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, ReCompleting, or Plugging Back of a well.

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or to drill around junk in the hole to overcome other mechanical difficulties.

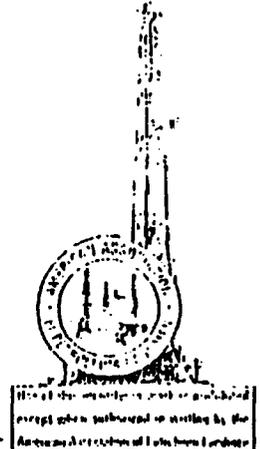
R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

ARTICLE II. EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

- X A. Exhibit "A," shall include the following information: (1) Description of lands subject to this agreement, (2) Restrictions, if any, as to depths, formations, or substances, (3) Parties to agreement with addresses and telephone numbers for notice purposes, (4) Percentages or fractional interests of parties to this agreement, (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement, (6) Burdens on production. B. Exhibit "B," Form of Lease. X C. Exhibit "C," Accounting Procedure. D. Exhibit "D," Insurance. E. Exhibit "E," Gas Balancing Agreement. F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities. G. Exhibit "G," Tax Partnership. H. Other:



1 If any provision of any exhibit, except Exhibits "E," "F" and "G," is inconsistent with any provision contained in  
2 the body of this agreement, the provisions in the body of this agreement shall prevail.

3 ARTICLE III.

4 INTERESTS OF PARTIES

5 A. Oil and Gas Interests:

6 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this  
7 agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B,"  
8 and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

9 B. Interests of Parties in Costs and Production:

10 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne  
11 and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their  
12 interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the  
13 Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.  
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20 Operator shall pay or deliver, or cause to be paid or delivered, all burdens on production,  
21 specifically including any royalty, overriding royalty or production payment(s).  
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26 No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's  
27 lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher  
28 price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.

29 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby,  
30 and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in  
31 said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

32 C. Subsequently Created Interests:

33 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security  
34 for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production  
35 payment, net profits interest, assignment of production or other burden payable out of production attributable to its working  
36 interest hereunder, such burden shall be deemed a "Subsequently Created Interest." Further, if any party has contributed  
37 hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interest, or other burden  
38 payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such  
39 burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's  
40 Lease or Interest to exceed the amount stipulated in Article III.B. above.

41 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and  
42 alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other  
43 parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses  
44 chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created Interest in the  
45 same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required  
46 under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the  
47 production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of  
48 said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or  
49 parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

50 ARTICLE IV.

51 TITLES

52 A. Title Examination:

53 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and,  
54 if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire  
55 Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working  
56 interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing  
57 Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator  
58 all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of  
59 charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the  
60 examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or  
61 by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in  
62 procuring abstracts, fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in royalty  
63 opinions and division order title opinions) and other direct charges as provided in Exhibit "C" shall be borne by the Drilling  
64 Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such  
65 interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel  
66 in the performance of the above functions.

67 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in  
68 connection with Leases or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation  
69 and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings  
70 before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to  
71 the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings.  
72 Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental  
73 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct  
74 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

1 Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above  
2 functions.

3 No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, if appropriate, has  
4 been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by  
5 all of the Drilling Parties in such well.

6 **B. Loss or Failure of Title:**

7 1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a  
8 reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest  
9 (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title  
10 failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject  
11 to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas  
12 Leases and Interests; and,

13 (a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if  
14 applicable, a successor in interest to such party) shall bear alone the entire loss and it shall not be entitled to recover from  
15 Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there  
16 shall be no additional liability on its part to the other parties hereto by reason of such title failure;

17 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the  
18 Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage  
19 basis, as of the time it is determined finally that title failure has occurred; so that the interest of the party whose Lease or  
20 Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

21 (c) If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract  
22 Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable  
23 to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and  
24 burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well  
25 attributable to such failed Lease or Interest;

26 (d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest  
27 which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid  
28 to the party or parties who bore the costs which are so refunded;

29 (e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises  
30 by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received  
31 production for which such accounting is required based on the amount of such production received, and each such party shall  
32 severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;

33 (f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of  
34 the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title  
35 it shall bear all expenses in connection therewith; and

36 (g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an  
37 interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder  
38 of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest  
39 is reflected on Exhibit "A."

40 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
41 payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas  
42 Lease or Interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary  
43 liability against the party who failed to make such payment. Unless the party who failed to make the required payment  
44 secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make  
45 proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A"  
46 shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party  
47 who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership  
48 of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully  
49 reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest,  
50 calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest,  
51 it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole  
52 previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

53 (a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease  
54 burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or  
55 Interest, on an acreage basis, up to the amount of unrecovered costs;

56 (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed  
57 to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and  
58 marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination,  
59 would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest  
60 termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties  
61 in proportion to their respective interests reflected on Exhibit "A"; and,

62 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner  
63 of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

64 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles  
65 IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on  
66 Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because  
67 express or implied covenants have not been performed (other than performance which requires only the payment of money),  
68 and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no  
69 readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

70 4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any  
71 Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety  
72 (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed  
73 or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B.  
74 shall not apply to such acquisition.

ARTICLE V.  
OPERATOR

**A. Designation and Responsibilities of Operator:**

SHAHARA OIL, LLC shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

**B. Resignation or Removal of Operator and Selection of Successor:**

**1. Resignation or Removal of Operator:** Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

**2. Selection of Successor Operator:** Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

**3. Effect of Bankruptcy:** If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

**C. Employees and Contractors:**

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

**D. Rights and Duties of Operator:**

**1. Competitive Rates and Use of Affiliates:** All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

**2. Discharge of Joint Account Obligations:** Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

**3. Protection from Liens:** Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

1 liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or  
 2 materials supplied.

3 4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced  
 4 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the  
 5 Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until  
 6 used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as  
 7 provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator  
 8 and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in  
 9 this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the  
 10 parties otherwise specifically agree.

11 5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator  
 12 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to  
 13 all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of  
 14 operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access  
 15 rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate  
 16 Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such  
 17 interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any  
 18 and all reports and information obtained by Operator in connection with production and related items, including, without  
 19 limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding  
 20 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the  
 21 information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures  
 22 shall be conducted in accordance with the audit protocol specified in Exhibit "C."

23 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to  
 24 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications  
 25 required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder.  
 26 Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

27 7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not  
 28 limited to the Initial Well:

29 (a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which  
 30 drilling operations are commenced.

31 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well  
 32 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

33 (c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing  
 34 Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted  
 35 hereunder.

36 8. Cost Estimates. Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs  
 37 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement.  
 38 Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

39 9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers  
 40 compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-  
 41 insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall  
 42 be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties  
 43 as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on  
 44 or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted  
 45 and to maintain such other insurance as Operator may require.

46 In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the  
 47 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive  
 48 equipment.

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ARTICLE VI.

DRILLING AND DEVELOPMENT

B. Subsequent Operations:

1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or  
 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of  
 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under  
 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written  
 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone.

1 under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be  
 2 performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a  
 3 notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work  
 4 whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to  
 5 Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-  
 6 eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply  
 7 within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.  
 8 Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties  
 9 within the time and in the manner provided in Article VI.B.6.

10 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be  
 11 contractually committed to participate therein provided such operations are commenced within the time period hereafter set  
 12 forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as  
 13 promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case  
 14 may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of  
 15 the parties participating therein; provided, however, said commencement date may be extended upon written notice of same  
 16 by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such  
 17 additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-  
 18 way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or  
 19 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as  
 20 specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct  
 21 said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior  
 22 proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or  
 23 Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation,  
 24 reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance  
 25 with Article VI.B.5. in the event of a Sidetracking operation.

## 26 2. Operations by Less Than All Parties:

27 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or  
 28 VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this  
 29 Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no  
 30 later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the  
 31 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the  
 32 proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting  
 33 Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party,  
 34 the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the  
 35 account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The  
 36 rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party  
 37 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when  
 38 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this  
 39 agreement.

40 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the  
 41 applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its  
 42 recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party,  
 43 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of such notice, shall advise the  
 44 proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its  
 45 proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in  
 46 the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of  
 47 Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties'  
 48 interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a  
 49 Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its  
 50 proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a  
 51 drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a  
 52 total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may  
 53 withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10)  
 54 days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period.  
 55 If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties  
 56 of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the  
 57 period provided in Article VI.B.1., subject to the same extension right as provided therein.

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be  
 59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding  
 60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
 61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results  
 62 in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore  
 63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that  
 64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate  
 65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not  
 66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,  
 67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in  
 68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the  
 69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the  
 70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,  
 71 Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the  
 72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the  
 73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-  
 74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-  
 2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect  
 3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or  
 4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,  
 5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production  
 6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

7 (i) 300 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment  
 8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and  
 9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first  
 10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other  
 11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that  
 12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning  
 13 of the operations; and

14 (ii) 300 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,  
 15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C.,  
 16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),  
 17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

18 Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective Zone  
 19 described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable  
 20 substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each  
 21 Non-Consenting Party who submitted or voted for an alternative proposal under Article VI.B.6. to drill the well to a  
 22 shallower Zone than the deepest objective Zone proposed in the notice under which the well was drilled, and each such Non-  
 23 Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the  
 24 cost of drilling the well to its actual depth, calculated in the manner provided in Article VI.B.4. (a). If any such Non-  
 25 Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions  
 26 of this Article VI.B.2. (b) shall apply to such party's interest.

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or  
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in  
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full  
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to  
 31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking  
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at  
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such  
 34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the  
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 300 % of  
 36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to  
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is  
 38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting  
 39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's  
 41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,  
 42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to  
 43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting  
 45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all  
 46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,  
 47 Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each  
 48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations  
 50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to  
 51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,  
 52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement  
 53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the  
 54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties  
 55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of  
 56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from  
 57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas  
 58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or  
 59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with  
 60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited  
 61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such  
 62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-  
 63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided  
 65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. of the day  
 66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall  
 67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as  
 68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,  
 69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and  
 70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this  
 71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and shall have  
 73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise  
 74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

1 Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required  
2 under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening  
3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,  
4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms  
5 of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation,  
6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated  
7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total  
8 interest as shown on Exhibit "A" of all Consenting Parties.

9 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party  
10 may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in  
11 Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended  
12 response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending  
13 the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be  
14 allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's  
15 interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

16 4. Deepening: If less than all the parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed  
17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article  
18 VI.B.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone  
19 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the  
20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate  
21 in the Deepening operation.

22 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,  
23 such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-  
24 Consenting Parties). Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to  
25 participate or not participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation  
26 is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation,  
27 such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses:

28 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying  
29 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs  
30 and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-  
31 Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting  
32 Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other  
33 provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well  
34 incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the  
35 sole account of Consenting Parties.

36 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing  
37 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or  
38 reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and  
39 equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less  
40 those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall  
41 also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based  
42 on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent  
43 Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in  
44 connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the  
45 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-  
46 Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the  
47 well for Deepening.

48 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior  
49 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article  
50 VI.F.

51 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an  
52 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its  
53 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore  
54 to be utilized as follows:

55 (a) If the proposal is for Sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs  
56 incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is initiated.

57 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of  
58 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth  
59 at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's  
60 proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking  
61 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

62 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to  
63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such  
64 party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform  
65 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal  
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be  
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such  
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such  
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period or within  
70 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the  
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required  
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage  
73 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation  
 2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday  
 3 and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig  
 4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to  
 5 relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within  
 6 such period shall be deemed an election not to participate in the prevailing proposal.

7 7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be  
 8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract  
 9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

10 8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or  
 11 Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except  
 12 with the consent of all parties that have not relinquished interests in the well at the time of such operation.

13 **C. Completion of Wells; Reworking and Plugging Back:**

14 1. Completion: Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well  
 15 drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling,  
 16 Deepening or Sidetracking shall include:

17  Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and  
 18 equipping of the well, including necessary tankage and/or surface facilities.

19  Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When  
 20 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results  
 21 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to  
 22 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,  
 23 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice  
 24 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of  
 25 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an  
 26 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting  
 27 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the  
 28 procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all  
 29 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface  
 30 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party  
 31 receiving such notice to reply within the period above fixed shall constitute an election by that party not to  
 32 participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of  
 33 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the  
 34 provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging  
 35 Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations  
 36 thereafter conducted by less than all parties; provided, however, that Article VI.B.2 shall apply separately to each  
 37 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting  
 38 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party  
 39 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier  
 40 Completions or Recompletions have recouped their costs pursuant to Article VI.B.2.; provided further, that any  
 41 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in  
 42 which the Completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent  
 43 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable  
 44 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,  
 45 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a  
 46 Completion attempt.

47 2. Rework, Recomplete or Plug Back: No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,  
 48 Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking,  
 49 Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and  
 50 Completing and equipping of said well, including necessary tankage and/or surface facilities.

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of \_\_\_\_\_  
 53 TWENTY FIVE THOUSAND Dollars (\$ 25,000.00 ) except in connection with the  
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously  
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden  
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion  
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the  
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so  
 59 requesting an information copy thereof for any single project costing in excess of TWENTY-FIVE THOUSAND Dollars  
 60 ( \$ 25,000.00 ). Any party who has not relinquished its interest in a well shall have the right to propose that  
 61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as  
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but  
 63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall  
 64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the  
 65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under  
 66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such  
 67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent  
 68 of any party or parties owning at least 65 % of the interests of the parties entitled to participate in such operation,  
 69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated  
 70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms  
 71 of the proposal.

72 **E. Abandonment of Wells:**

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has  
 74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any  
 2 party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after  
 3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the  
 4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the  
 5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to  
 6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday,  
 7 Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such  
 8 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of  
 9 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct  
 10 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and  
 11 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party  
 12 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against  
 13 liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and  
 14 restoring the surface, for which the abandoning parties shall remain proportionately liable.

15 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been  
 16 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has  
 17 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to  
 18 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk  
 19 and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed  
 20 abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the  
 21 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its  
 22 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the  
 23 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties  
 24 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide  
 25 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well  
 26 within the required period or thereafter to conduct operations on such well shall entitle Operator to retain or take possession  
 27 of such well and plug and abandon the well.

28 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of  
 29 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost  
 30 of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event  
 31 the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the  
 32 value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing  
 33 operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning  
 34 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all  
 35 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only  
 36 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the  
 37 interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-  
 38 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of  
 39 one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form  
 40 attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.  
 41 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their  
 42 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract  
 43 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

44 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production  
 45 from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon  
 46 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and  
 47 charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate  
 48 ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor  
 49 shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in  
 50 further operations therein subject to the provisions hereof.

51 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as  
 52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided,  
 53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further  
 54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well  
 55 in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest  
 56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration costs for such well as  
 57 provided in Article VI.B.2.(b).

58 **F. Termination of Operations:**

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,  
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without  
 61 consent of parties bearing 65 % of the costs of such operation; provided, however, that in the event granitic or other  
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,  
 63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1; and the  
 64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 **G. Taking Production in Kind:**

66  Option No. 1: Gas Balancing Agreement Attached

67 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the  
 68 Contract Area, exclusive of production which may be used in development and producing operations and in preparing and  
 69 treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking  
 70 in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any  
 71 party taking its share of production in kind shall be required to pay for only its proportionate share of such part of  
 72 Operator's surface facilities which it uses.

73 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in  
 74 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment

1 directly from the purchaser thereof for its share of all production.

2 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate  
 3 share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by  
 4 the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to  
 5 time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by  
 6 Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to  
 7 the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any  
 8 time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser.  
 9 Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time  
 10 as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a  
 11 period in excess of one (1) year.

12 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator  
 13 shall have no duty to share any existing market or to obtain a price equal to that received under any existing  
 14 market. The sale or delivery by Operator of a non-taking party's share of Oil under the terms of any existing  
 15 contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said  
 16 contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days  
 17 written notice of such intended purchase and the price to be paid or the pricing basis to be used.

18 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following  
 19 month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements.  
 20 Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which  
 21 records shall be made available to Non-Operators upon reasonable request.

22 In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate  
 23 pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportion-  
 24 ate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with  
 25 any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a  
 26 separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

27  **Option No. 2; No Gas Balancing Agreement:**

28 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from  
 29 the Contract Area, exclusive of production which may be used in development and producing operations and in  
 30 preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure  
 31 incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall  
 32 be borne by such party. Any party taking its share of production in kind shall be required to pay for only its  
 33 proportionate share of such part of Operator's surface facilities which it uses.

34 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in  
 35 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment  
 36 directly from the purchaser thereof for its share of all production.

37 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate  
 38 share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the  
 39 revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others  
 40 at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator  
 41 may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall  
 42 be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator  
 43 to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered  
 44 to a purchaser; provided, however, that the effective date of any such revocation may be deferred at Operator's  
 45 election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase  
 46 contract having a term extending beyond such ten (10) -day period. Any purchase or sale by Operator of any other  
 47 party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the  
 48 minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1)  
 49 year.

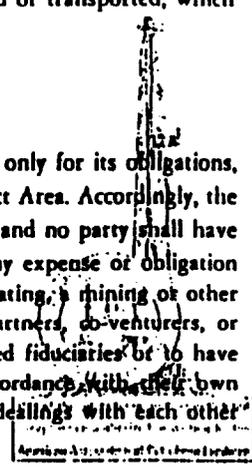
50 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator  
 51 shall have no duty to share any existing market or transportation arrangement or to obtain a price or transportation  
 52 fee equal to that received under any existing market or transportation arrangement. The sale or delivery by  
 53 Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not  
 54 give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase of Oil  
 55 and Gas and no sale of Gas shall be made by Operator without first giving the non-taking party ten days written  
 56 notice of such intended purchase or sale and the price to be paid or the pricing basis to be used. Operator shall give  
 57 notice to all parties of the first sale of Gas from any well under this Agreement.

58 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following  
 59 month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements.  
 60 Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which  
 61 records shall be made available to Non-Operators upon reasonable request.

62 **ARTICLE VII.**  
 63 **EXPENDITURES AND LIABILITY OF PARTIES**

64 **A. Liability of Parties:**

65 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations,  
 66 and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the  
 67 liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have  
 68 any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation  
 69 hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other  
 70 partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or  
 71 principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have  
 72 established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own  
 73 respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other  
 74 with respect to activities hereunder.



1 **B. Liens and Security Interests:**

2 Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas  
3 Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any  
4 interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection  
5 therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense,  
6 interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil  
7 and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest  
8 granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and  
9 overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or  
10 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or  
11 used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts  
12 (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead),  
13 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the  
14 foregoing.

15 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording  
16 supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time  
17 following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as  
18 a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform  
19 Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate  
20 to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed  
21 herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a  
22 financing statement with the proper officer under the Uniform Commercial Code.

23 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to  
24 the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security  
25 interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or  
26 under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement,  
27 whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject  
28 to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder  
29 whether or not such obligations arise before or after such interest is acquired.

30 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the  
31 Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.  
32 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an  
33 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In  
34 addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use  
35 of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect  
36 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by  
37 such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount  
38 owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production  
39 may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the  
40 default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in  
41 this paragraph.

42 If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by  
43 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the  
44 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so  
45 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each  
46 paying party may independently pursue any remedy available hereunder or otherwise.

47 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure  
48 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting  
49 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisalment  
50 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets  
51 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party  
52 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted  
53 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable  
54 manner and upon reasonable notice.

55 Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien  
56 law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting  
57 the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or  
58 utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the  
59 payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

60 **C. Advances:**

61 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other  
62 parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations  
63 hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an  
64 itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice  
65 for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month.  
66 Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and  
67 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as  
68 provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end  
69 that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

70 **D. Defaults and Remedies:**

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to  
72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period specified for  
73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the  
74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

1 only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator,  
 2 and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.  
 3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified  
 4 below or otherwise available to a non-defaulting party.

5 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,  
 6 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one  
 7 or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such  
 8 Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the  
 9 default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of  
 10 the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the  
 11 Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area  
 12 after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting  
 13 party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right  
 14 to receive information as to any operation conducted hereunder during the period of such default, the right to elect to  
 15 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being  
 16 conducted under this agreement even if the party has previously elected to participate in such operation, and the right to  
 17 receive proceeds of production from any well subject to this agreement.

18 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint  
 19 account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default  
 20 until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from  
 21 suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

22 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the  
 23 defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in  
 24 which event if the billing is for the drilling of a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a  
 25 well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting  
 26 party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with  
 27 respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party,  
 28 notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the  
 29 non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

30 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure  
 31 its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such  
 32 payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-  
 33 defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the  
 34 non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership  
 35 of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

36 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or  
 37 Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting  
 38 party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may  
 39 be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of  
 40 the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of  
 41 drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the  
 42 defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided  
 43 in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining  
 44 when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

45 5. Costs and Attorneys' Fees. In the event any party is required to bring legal proceedings to enforce any financial  
 46 obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of  
 47 collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

#### 48 E. Rentals, Shut-in Well Payments and Minimum Royalties:

49 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid  
 50 by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties  
 51 own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to  
 52 make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper  
 53 evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or  
 54 minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which  
 55 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

56 Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to  
 57 production of a producing well, at least five (5) days (excluding Saturday, Sunday and legal holidays) prior to taking such  
 58 action, or at the earliest opportunity permitted by circumstances, but assumes no liability for failure to do so. In the event of  
 59 failure by Operator to so notify Non-Operators, the loss of any lease contributed hereto by Non-Operators for failure to make  
 60 timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article  
 61 IV.B.3.

#### 62 F. Taxes:

63 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all  
 64 property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed  
 65 thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as  
 66 to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and  
 67 Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being  
 68 subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes  
 69 resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to  
 70 such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part  
 71 upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to  
 72 the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's  
 73 working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner  
 74 provided in Exhibit "C."

1 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner  
 2 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final  
 3 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes  
 4 and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for  
 5 the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be  
 6 paid by them, as provided in Exhibit "C."

7 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect  
 8 to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

9 **ARTICLE VIII.**

10 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

11 **A. Surrender of Leases:**

12 The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole  
 13 or in part unless all parties consent thereto.

14 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written  
 15 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after  
 16 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a  
 17 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases  
 18 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or  
 19 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be  
 20 located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the  
 21 assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not  
 22 consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long  
 23 thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B."  
 24 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore  
 25 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party  
 26 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained  
 27 in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the  
 28 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased  
 29 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less  
 30 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less  
 31 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the  
 32 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the  
 33 interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made  
 34 varies according to depth, then the interest assigned shall similarly reflect such variances.

35 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering  
 36 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage  
 37 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this  
 38 agreement but shall be deemed subject to an Operating Agreement in the form of this agreement.

39 **B. Renewal or Extension of Leases:**

40 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties  
 41 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,  
 42 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following  
 43 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease  
 44 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost  
 45 allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interests held at that time by the  
 46 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an  
 47 assignment of its proportionate interest therein by the acquiring party.

48 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned  
 49 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in  
 50 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the  
 51 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto  
 52 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which  
 53 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating  
 54 Agreement in the form of this agreement.

55 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in  
 56 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

57 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by  
 58 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the  
 59 expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the  
 60 existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time  
 61 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the  
 62 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this  
 63 agreement.

64 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

65 **C. Acreage or Cash Contributions:**

66 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other  
 67 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall  
 68 be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom  
 69 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the  
 70 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the  
 71 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any  
 72 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above  
 73 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled  
 74 inside the Contract Area.

Support of well drilled  
 American Association of Petroleum Landmen

1 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder,  
 2 such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

3 **D. Assignment; Maintenance of Uniform Interest:**

4 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas  
 5 Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other  
 6 disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells,  
 7 equipment and production unless such disposition covers either:

- 8 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
- 9 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells,  
 10 equipment and production in the Contract Area.

11 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement  
 12 and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and  
 13 Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of  
 14 the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale,  
 15 encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the  
 16 instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other  
 17 disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect  
 18 to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation  
 19 conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security  
 20 interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

21 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion,  
 22 may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures,  
 23 receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to  
 24 bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-  
 25 owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of  
 26 the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale  
 27 proceeds thereof.

28 **E. Waiver of Rights to Partition:**

29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
 30 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its  
 31 undivided interest therein.

32 **F. Preferential Right to Purchase:**

33  (Optional; Check if applicable.)

34 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract  
 35 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which  
 36 shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase  
 37 price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an  
 38 optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the  
 39 same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the  
 40 purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all  
 41 purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage  
 42 its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,  
 43 or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets  
 44 to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any  
 45 company in which such party owns a majority of the stock.

46 **ARTICLE IX.**

47 **INTERNAL REVENUE CODE ELECTION**

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the  
 49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each  
 50 party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle  
 51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and  
 52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected  
 53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal  
 54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by  
 55 Treasury Regulations §1.761. Should there be any requirement that each party hereby affected give further evidence of this  
 56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal  
 57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action  
 58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract  
 59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter  
 60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party  
 61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each  
 62 such party states that the income derived by such party from operations hereunder can be adequately determined without the  
 63 computation of partnership taxable income.

64 **ARTICLE X.**

65 **CLAIMS AND LAWSUITS**

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure  
 67 does not exceed FIFTY THOUSAND Dollars (\$ 50,000.00 ) and if the payment is in complete settlement  
 68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over  
 69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling,  
 70 or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the  
 71 claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations  
 72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall  
 73 immediately notify all other parties, and the claim or suite shall be treated as any other claim or suit involving operations hereunder.

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1 orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or  
2 production of wells, on tracts offsetting or adjacent to the Contract Area.  
3 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages,  
4 injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation  
5 or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission  
6 or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not  
7 constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of  
8 production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such  
9 an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such  
10 incorrect interpretation or application.

11 **ARTICLE XV.**  
12 **MISCELLANEOUS**

13 **A. Execution:**

14 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been  
15 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of  
16 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which  
17 own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have  
18 become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no  
19 event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this  
20 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of  
21 drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease  
22 as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs  
23 hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds  
24 with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a  
25 current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the  
26 Initial Well which would have been charged to such person under this agreement if such person had executed the same and  
27 Operator shall receive all revenues which would have been received by such person under this agreement if such person had  
28 executed the same.

29 **B. Successors and Assigns:**

30 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs,  
31 devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or  
32 Interests included within the Contract Area.

33 **C. Counterparts:**

34 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all  
35 purposes.

36 **D. Severability:**

37 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws,  
38 this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to  
39 this agreement to comply with all of its financial obligations provided herein shall be a material default.

40 **ARTICLE XVI.**  
41 **OTHER PROVISIONS**

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IN WITNESS WHEREOF, this agreement shall be effective as of  
the 17<sup>th</sup> day of JULY, 1997

OPERATOR

SHAHARA OIL, LLC

By Perry L. Hughes

**ACKNOWLEDGMENTS**

State of New Mexico  
County of Eddy

This instrument was acknowledged before me on July 17<sup>th</sup>,  
1997, by Perry L. Hughes as president of Shahara Oil, LLC, a New  
Mexico corporation.

Thalia Marshall  
Notary Public

(Seal)

My commission expires: November 6, 2000

EXHIBIT "A"

(1) Description of lands subject to this Agreement:

W $\frac{1}{4}$  Section 16, Township 17 South, Range 33 East N.M.P.M., Lea County, New Mexico

(2) Restrictions, if any, as to depths, formations or substances:

The Grayburg/San Andres formations, the vertical limits of which extend from approximately 4100 feet below the surface to a lower depth of 5500 feet within the Unit Area.

(3) Parties to Agreement with addresses and telephone numbers for notice purposes:

Shahara Oil, LLC  
207 W. McKay  
Carlsbad, New Mexico 88220  
(505) 885-5433

Mountaineer Limited Partnership  
207 W. McKay  
Carlsbad, New Mexico 88220  
(505) 885-5433

Dale McCarter  
PO Box 2359  
Midland, Texas 79702  
(915) 684-9846

Ogden Sharon Hudnall  
Ogden Sharon Hudnall Trust No. 2  
703 First Place  
Tyler, Texas 75702  
(903) 595-1057

Lometa Hudnall Cox  
Lometa Hudnall Cox Trust No. 2  
700 First Place  
Tyler, Texas 75702  
(903) 592-8422

(4) Percentages or fractional interests of parties to this Agreement:

Mountaineer Limited Partnership	90.6775%
Dale McCarter	4.7725%
Ogden Sharon Hudnall	1.1375%
Ogden Sharon Hudnall Trust No. 2	1.1375%
Lometa Hudnall Cox	1.1375%
Lometa Hudnall Cox Trust No. 2	<u>1.1375%</u>
	100.0%

(5) Oil and Gas Leases subject to this Agreement:

Oil and Gas Lease B-2148 issued on September 11, 1933 by the State of New Mexico, Lessor, to Phillips Petroleum Company, Lessee

(6) Burdens on production:

<u>Owners</u>	<u>Amounts</u>
State of New Mexico	.1250000 RI
Phillips Petroleum Company	.0571797 ORI
Norwest Bank Texas, NA, Wichita Falls, Independent Executor of the Gaylord F. Swarts Estate	.0040332 ORI

Norwest Bank Texas, NA, Wichita Falls, Independent Executor of the Dottie M. Swarts Estate	.0040332 ORI
BarMar, Inc.	.0015272 ORI
Barry L. Antweil	.0015272 ORI
B.G. Davis	.0015272 ORI
R.M. Williams	.0015272 ORI
JLW Management Company	.0034362 ORI
Perry L. Hughes	.0199374 ORI
Petco Ltd.	.0087227 PP
Rowland Curtis McBroom	<u>.0007465 ORI</u>
	.2291979

EXHIBIT " C "

1 Attached to and made a part of OPERATING AGREEMENT DATED AS OF JULY 17, 1997 between  
2 SHAHARA OIL, LLC as OPERATOR and NON-OPERATORS AS LISTED ON EXHIBIT "A"  
3 CONCERNING THE W/2 SECTION 16, T17S, R33E, LEA COUNTY, NEW MEXICO

4  
5  
6  
7  
8 **ACCOUNTING PROCEDURE**  
9  
10 **JOINT OPERATIONS**

11  
12 **I. GENERAL PROVISIONS**

13  
14 **1. Definitions**

15  
16 "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure  
17 is attached.

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

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

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

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

24 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

35  
36 **2. Statement and Billings**

37  
38 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint  
39 Account for the preceding month. Such bills will be accompanied by statements which identify the authority for  
40 expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and  
41 expense except that items of Controllable Material and unusual charges and credits shall be separately identified and  
42 fully described in detail.

43  
44 **3. Advances and Payments by Non-Operators**

45  
46 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their  
47 share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the  
48 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust  
49 each monthly billing to reflect advances received from the Non-Operators.

50  
51 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made  
52 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at MIDLAND  
53 AMERICAN BANK on the first day of the month in which delinquency occurs plus 1% or the  
54 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,  
55 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid  
56 amounts.

57  
58 **4. Adjustments**

59  
60 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof;  
61 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall  
62 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar  
63 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes  
64 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same  
65 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of  
66 Controllable Material as provided for in Section V.

67  
68  
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70

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 unde  
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, retiremen  
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to th  
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the perce  
68 most recently recommended by the Council of Petroleum Accountants Societies.

69  
70

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 EIGHTEEN percent ( 18 %) 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 ( X ) 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 ( X ) 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 ( X ) 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 \$ 3000.00  
61 (Prorated for less than a full month)

62  
63 Producing Well Rate \$ 375.00

64  
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

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

- 3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)  
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be  
6 applied for the period from date workover operations, with rig or other units used in workover,  
7 commence through date of rig or other unit release, except that no charge shall be made during  
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9  
10 (b) Producing Well Rates

- 11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as  
13 a one-well charge for the entire month.  
14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down  
16 hole shall be considered as a one-well charge providing each completion is considered a separate  
17 well by the governing regulatory authority.  
18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the  
20 production shall be considered as a one-well charge providing the gas well is directly connected to  
21 a permanent sales outlet.  
22  
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations  
24 are completed on any well. This one-well charge shall be made whether or not the well has  
25 produced except when drilling well rate applies.  
26  
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.  
29  
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the  
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying  
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude  
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as  
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published  
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as  
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or  
37 minus the computed adjustment.

38  
39 B. Overhead - Percentage Basis

- 40  
41 (1) Operator shall charge the Joint Account at the following rates:

42  
43 (a) Development

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

46  
47  
48 (b) Operating

49 \_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided  
50 under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased  
51 for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the  
52 mineral interest in and to the Joint Property.

- 53  
54  
55 (2) Application of Overhead - Percentage Basis shall be as follows:

56  
57 For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,  
58 development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial  
59 operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing  
60 interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and  
61 expenditures incurred in abandoning when the well is not completed as a producer, and original cost of  
62 construction or installation of fixed assets, the expansion of fixed assets and any other project clearly  
63 discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other  
64 costs shall be considered as operating.

65  
66 2. Overhead - Major Construction

67  
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of  
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the  
70 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 \$1,000,000

A. \_\_\_\_\_ % of first \$100,000 or total cost if less, plus

B. \_\_\_\_\_ % of costs in excess of \$100,000 but less than \$1,000,000, plus

C. \_\_\_\_\_ % of costs in excess of \$1,000,000.

D. \$100.00 PER DAY.

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. N/A % of total costs through \$100,000; plus

B. N/A % of total costs in excess of \$100,000 but less than \$1,000,000; plus

C. N/A % 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 $\frac{1}{2}$  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 3/4 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 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 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 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 V. INVENTORIES

56  
57 The Operator shall maintain detailed records of Controllable Material.  
58

59 1. Periodic Inventories, Notice and Representation

60  
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.

RATIFICATION OF UNIT AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Agreement for the Development and Operation of the Shalara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 8<sup>th</sup> day of FEBRUARY, 1998.

[Signature]  
(Signature)

DALE M. CARTER  
(Printed Name)

STATE OF TEXAS  
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 8<sup>th</sup> day of FEBRUARY, 1998, by DALE McCARTER.

[Signature]  
Notary Public

My Commission Expires:  
2-9-98



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:  
\_\_\_\_\_

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



RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 8<sup>th</sup> day of FEBRUARY, 1998.

*[Handwritten Signature]*  
(Signature)

DALE Mc CARTER  
(Printed Name)

STATE OF TEXAS  
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 8<sup>th</sup> day of FEBRUARY, 1998, by DALE McCARTER.

My Commission Expires:

2-4-98

*[Handwritten Signature]*  
Notary Public



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

\_\_\_\_\_

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

RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 24<sup>th</sup> day of July, 1997.

Mountaineer Limited Partnership

Perry L. Hughes  
(Signature)

Perry L. Hughes  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_.

My Commission Expires: \_\_\_\_\_

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

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires: \_\_\_\_\_

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

RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25th day of July, 1997.

Ogden Sharon Hudnall  
(Signature)

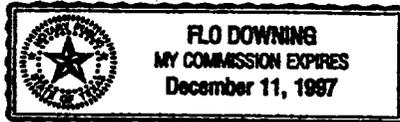
Ogden Sharon Hudnall, Individually  
(Printed Name)

STATE OF TEXAS  
COUNTY OF SMITH

The foregoing instrument was acknowledged before me this 25th day of July, 1997, by Ogden Sharon Hudnall.

Flo Downing  
Notary Public

My Commission Expires:  
12-11-97



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:  
\_\_\_\_\_

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

RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 25th day of July, 1997.

Ogden Sharon Hudnall, Trustee  
(Signature)

Ogden Sharon Hudnall, Trustee  
(Printed Name)

STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_.

My Commission Expires:

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

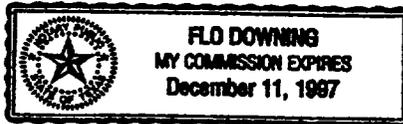
STATE OF TEXAS  
COUNTY OF SMITH

The foregoing instrument was acknowledged before me this 25th day of July, 1997, by Ogden Sharon Hudnall, of Ogden Sharon Hudnall Trust #2, a Trustee ~~corporation~~, on behalf of the ~~corporation~~ Trust.

My Commission Expires:

12-11-97

Flo Downing  
Notary Public



RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18th day of August, 1997.

Lometa Anne Cox  
(Signature) Lometa Anne Cox, Individually

Lometa Anne Cox  
(Printed Name)

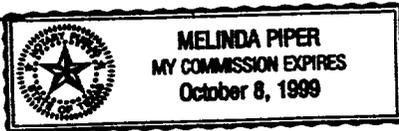
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Lometa Anne Cox.

My Commission Expires:

Melinda Piper  
Notary Public

10-8-99



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

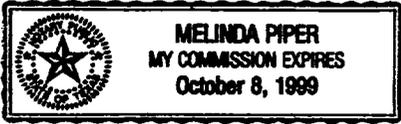
\_\_\_\_\_  
Notary Public

\_\_\_\_\_

RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shalara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18th day of August, 1997.



Lometa Hudnall Cox  
(Signature) Lometa Hudnall Cox, Trustee  
Lometa Hudnall Cox Tr. #2

LOMETA HUDNALL COX  
(Printed Name) Lometa Hudnall Cox

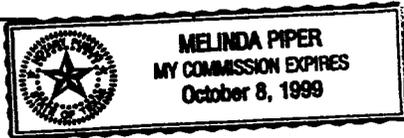
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Lometa Hudnall Cox, Trustee.

My Commission Expires:

10/8/99

Melinda Piper  
Notary Public



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

\_\_\_\_\_

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

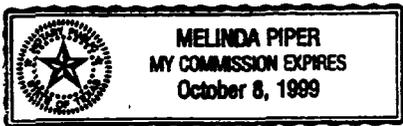
RATIFICATION OF UNIT OPERATING AGREEMENT

The undersigned acknowledges receipt of a copy of that certain Unit Operating Agreement for the Shahara State Unit Area, Lea County, New Mexico, and hereby ratifies the same for all purposes.

Dated this 18th day of August 1997.



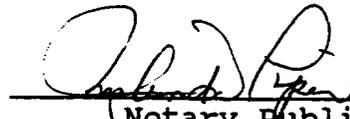
(Signature) Sam Roosth, Trustee  
Lometa Hudnall Cox Tr. #2



Sam Roosth, Trustee  
(Printed Name)

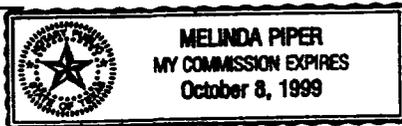
STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this 18th day of August, 1997, by Sam Roosth, Trustee.

  
\_\_\_\_\_  
(Notary Public)

My Commission Expires:

10-8-99



STATE OF  
COUNTY OF

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of the corporation.

My Commission Expires:

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

