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JASON KELLAHIN (RETIRED 1991)

August 25, 1998

**HAND DELIVERED**

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OIL CONSERVATION DIV

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

**Re: Application of Burlington Resources Oil & Gas Company  
for statutory unitization of the Corbin Delaware Federal Unit  
Lea County, New Mexico**

Dear Ms Wrotenbery:

On behalf of Burlington Resources Oil & Gas Company, please find enclosed our application for approval of the referenced project which we request be set for hearing on the Examiner's docket now scheduled for September 17, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Burlington Resources Oil & Gas Company  
Attn: Rick Gallegos

## PROPOSED ADVERTISEMENT

CASE 12046 Application of Burlington Resources Oil & Gas Company for statutory unitization, Lea County, New Mexico. Applicant, in accordance with NMSA 1979 Sections 70-7-1 through 70-7-21 ("Statutory Unitization Act") seeks statutory unitization of its proposed Corbin Federal Delaware Unit encompassing 566.36 acres of federal lands comprising portions of Sections 7, 17 and 18, T18S, R33E, NMPM. Said project is located approximately 8 miles southeast from Maljamar, New Mexico.

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

**IN THE MATTER OF THE APPLICATION  
OF BURLINGTON RESOURCES OIL & GAS  
COMPANY FOR STATUTORY UNITIZATION  
OF THE CORBIN DELAWARE FEDERAL UNIT  
LEA COUNTY, NEW MEXICO**

CASE NO. 12046

**APPLICATION**

Comes now BURLINGTON RESOURCES OIL & GAS COMPANY, by its attorneys, Kellahin & Kellahin, and pursuant to the New Mexico Statutory Unitization Act (70-7-1 through 70-7-21 NMSA-1978), applies to the New Mexico Oil Conservation Division for an order approving its proposed Corbin Delaware Federal Unit, an enhanced oil recovery project in the West Corbin-Delaware Pool, for an area comprising 566.36 acres, more or less, of two federal and gas leases in portions of Sections 7, 17 and 18, T18S, R33E, Lea County, New Mexico, and in support states:

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

(2) Burlington is the proposed operator of an enhanced oil recovery unit to be called the "Corbin Delaware Federal Unit."

(3) The proposed area for which application is made for unitized operations pursuant to the Act is known as the "Corbin Delaware Federal Unit" and consists entirely of two federal oil & gas leases located in Lea County, New Mexico and comprises 566.36 acres, more or less, identified as the "Unit Area" on Exhibit "A" attached and being the following described area:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM

Section 7: S/2SW/4 & SW/4SE/4

Section 17: SW/4NW/4

Section 18: N/2 & N/2SE/4

(4) The "Unitized Formation" shall mean that interval underlying the Unit Area, locally known as the vertical interval lying between the top of the Delaware Lower "YZ" producing horizon down to the based of the Delaware "B" producing horizon as described in the Plat & Sparks July 1997 Waterflood Feasibility Report, and further described as the vertical limits of which extend from an upper limit described as the stratigraphic equivalent of 5,002 feet below the surface of the ground down to a lower limit of the stratigraphic equivalent of 5,102 as encountered in Corbin Federal #22 Well (located at 1,980 feet FNL and 1,780 feet FWL of Section 18, T18S, R33E, Eddy County, New Mexico) as recorded on the Halliburton Spectral Density Dual Spaced Neutron Log taken April 22, 1990.

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

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

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

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

(9) Burlington projects that the unitized management, operations and further development of the Unitized Formation within the Unit Area will increase reserves by approximately 161,000 barrels of oil and will improve the producing rate of this reservoir. It is therefore evidence that the unitized management, operations and further development of the Unitized Formation is reasonably necessary in order to effectively carry on enhanced oil recovery operations to substantially increase the ultimate recovery of oil and gas from the Unitized Formation within the Unit Area.

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

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

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

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

(14) this unitization will benefit the working interest owners and royalty owners of the oil and gas rights within the portion of the pool directly affected by this application.

(15) Applicant has requested preliminary approval from the Bureau of Land Management for the Unit.

(16) Applicant has made a good faith effort to secure voluntary unitization within the Unitized Formation of the Unit Area.

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

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

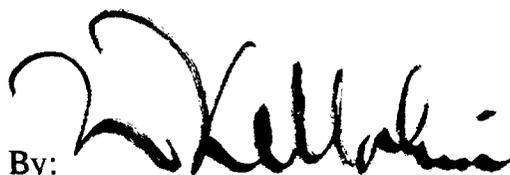
(19) The consenting parties to the Unit hold sufficient interest to give the Unit reasonable effective control of operations.

(20) Pursuant to Division notice rules, a copy of this application was mailed, certified mail-return receipt requested, to all parties listed on Exhibit "D" notifying them of this application and the hearing to be held on September 17, 1998.

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

WHEREFORE, Burlington Resources Oil & Gas Company requests that this application be set for hearing on September 17, 1998 before the Division's Examiner and that the Division enter its order approving the Unit Agreement and Unit Operating Agreement and providing for the unitized management, operations and further development of the Unitized Formation within the Unit Area in accordance with the Act.

Respectfully submitted,



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

ATTORNEYS FOR APPLICANT



## **EXHIBIT "D"**

### **INTEREST OWNERS**

Santa Fe Energy  
550 W. Illinois, Suite 1330  
Midland, Texas 79701

Altura Energy Ltd.  
P. O. Box 4292  
Houston, Texas 77210

Leigh P. Wilber  
1014 Western  
Northbrook IL 60062

Christine P. Carbaugh  
4611 FM 3126  
Livingston TX 77351

Constance P. Claassen  
4 Wilderness Court  
Moline IL 61265

Lynn P. Yedinak  
1300 Hawthorne Lane  
Hinsdale IL 60521

Gene Day Costello  
26672 Sierra Vista  
Mission Viejo CA 92692

George Edward Day IV  
1970 Shore Oak Dr.  
Decatur IL 62521

+

**FEDERAL WATERFLOOD UNIT**

**UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE**

**CORBIN DELAWARE UNIT AREA**

**LEA COUNTY, NEW MEXICO**

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



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CORBIN DELAWARE UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
CORBIN DELAWARE UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1998, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

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

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

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

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

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

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

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

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 646.36 acres, more or less, in Lea County, New Mexico.

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

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

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

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

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

(g) "Unitized Formation" shall mean that interval underlying the Unit Area, locally known as the vertical interval lying between the top of the Delaware Lower "YZ" producing horizon down to the base of the Delaware "B" producing horizon as described in the Platt & Sparks July, 1997 Waterflood Feasibility Report, and further described as the vertical limits of which extend from an upper limit described as the stratigraphic equivalent of 5,002 feet below the surface of the ground down to a lower limit of the stratigraphic equivalent of 5,102 feet as encountered in Corbin Federal #22 Well (located at 1,980 feet FNL and 1,780 feet FWL of Section 18, T-18-S, R-33-E, Eddy County, New Mexico) as recorded on the Halliburton Spectral Density Dual Spaced Neutron Log taken on April 22, 1990.

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

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

(j) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.

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

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

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

Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

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

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

(p) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, Corbin Delaware Unit, Lea County, New Mexico".

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

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

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

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

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

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

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

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

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area, and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest.

If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working

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

Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary, voluntarily, or when requested by the Supervisor and not less than six copies thereof shall be filed with the Supervisor.

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

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

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

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

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

3. File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

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

**SECTION 5. UNITIZED LAND.** All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject

to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2 (h) of this Agreement.

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

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

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

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

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

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

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

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more

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

**SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.**

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

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

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

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

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

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

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

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

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

$$\text{Tract Participation} = \{60\% * [(A*2)-B]\} + \{30\%*C\} + \{10\%*D\}$$

A = the Tract primary estimated ultimate oil recovery (production data available through February, 1998).

B = the Tract estimated oil recovery to July 1, 1998.

C = the tract total Hydrocarbon Pore Volume in the unitized interval as estimated from the Platt and Sparks July, 1997 Waterflood Feasibility Report.

D = The tract acreage as depicted on Exhibit "B" attached hereto.

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

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

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the

remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14 (a) above have voted in favor of the inclusion of such tract.

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

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the A.O.

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

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

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

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

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

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

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

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

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

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

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

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

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

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

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

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

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

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

The Unit Operator, upon approval by the Working Interest Owners and the A.O., is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

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

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

- (a) require that the party to whom such Unitized Substance are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or
- (b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgement of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

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

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

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

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.
- (c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the A.O., or its duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.
- (e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.
- (f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then

engaged in bona fide drilling, reworking, or improved 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.

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

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

If this Agreement does not become effective on or before January 1, 1999, it shall ipso facto expire on said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

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

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

This Agreement may be terminated with the approval of the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the

interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico, within thirty (30) days of the effective date of termination.

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

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

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

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

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

**SECTION 27. APPEARANCES.** Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Department and the Division, and to appeal from any order issued under the rules and regulations of the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the, Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

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

**SECTION 29. NO WAIVER OF CERTAIN RIGHT.** Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided,

however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

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

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

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

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

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

**SECTION 33. COUNTERPARTS.** This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with

the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

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

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

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

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

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

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

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

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

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

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

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Lea County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area.

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

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

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

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

Executed as of the day and year first above written.

**UNIT OPERATOR:**

**BURLINGTON RESOURCES  
OIL & GAS COMPANY**

Date of Execution:

\_\_\_\_\_

\_\_\_\_\_  
Dennis Sledge, Attorney-in-Fact

**UNIT NON-OPERATORS:**

**SANTA FE ENERGY RESOURCES, INC.**

Date of Execution:

\_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CENTRAL RESOURCES, INC.**

Date of Execution:

\_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**RKC, INC.**

Date of Execution:

\_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

STATE OF TEXAS       §

§

COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by Dennis Sledge, Attorney-in-Fact of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, on behalf of said corporation.

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

STATE OF TEXAS       §

§

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of SANTA FE ENERGY RESOURCES, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF COLORADO §  
  §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998,  
by \_\_\_\_\_ of CENTRAL RESOURCES,  
INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_

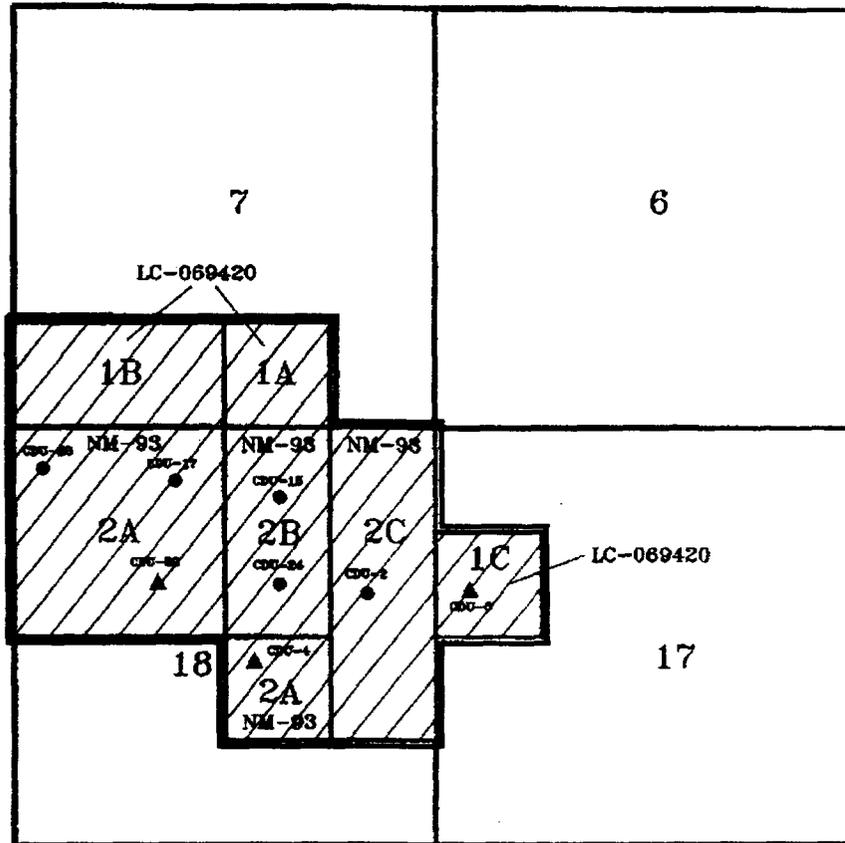
STATE OF CONNETICUT §  
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COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998,  
by \_\_\_\_\_ of RKC, INC.  
\_\_\_\_\_ corporation, on behalf of said corporation.

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

# Exhibit "A" to Unit Agreement Corbin Delaware Unit Lea County, New Mexico

TOWNSHIP 16 SOUTH, RANGE 33 EAST



 UNIT BOUNDARY  
 1B TRACT NUMBER  
 FEDERAL LANDS  
 566.36 Acres

Exhibit "B"  
Attached to and made a part of the Corbin Delaware Unit Agreement dated June 1, 1998

| Tract # | Description of Land  | Acres  | Serial No.<br>Expiration | Basic Royalty<br>Owner | Percentage | Lessee of Record     | Percentage | Overriding Royalty<br>Owner | Percentage              | Working Interest Owner             | Percentage |
|---------|--|--------|--------------------------|------------------------|------------|----------------------|------------|-----------------------------|-------------------------|------------------------------------|------------|
| 1A      | SW/4 SE/4,<br>Section 7, T18S, R33E,<br>Lea County, New Mexico                           | 40     | LC-069420<br>HBP         | U.S.A.                 | 12.5%      | Altura Ltd.          | 50%        | Leigh P. Wilber             | 0.609375%               | Burlington Resources               | 78.550000% |
|         |  |        |                          |                        |            | Conoco Inc.          | 50%        | Cristine P. Wiseman         | 0.609375%               | Oil & Gas Company                  | 18.766750% |
|         |  |        |                          |                        |            |                      |            | Constance P. Claassen       | 0.609375%               | Santa Fe Energy<br>Resources, Inc. |            |
| 1B      | Lot 4, SE/4 SW/4,<br>Section 7, T18S, R33E,<br>Lea County, New Mexico                    | 92.09  | LC-069420<br>HBP         | U.S.A.                 | 12.5%      | Altura Ltd.          | 50%        | Leigh P. Wilber             | 0.609375%               | Burlington Resources               | 78.550000% |
|         |  |        |                          |                        |            | Conoco Inc.          | 50%        | Cristine P. Wiseman         | 0.609375%               | Oil & Gas Company                  | 10.725000% |
|         |  |        |                          |                        |            |                      |            | Constance P. Claassen       | 0.609375%               | Santa Fe Energy<br>Resources, Inc. |            |
| 1C      | SW/4 NW/4,<br>Section 17, T18S, R33E,<br>Lea County, New Mexico                          | 40     | LC-069420<br>HBP         | U.S.A.                 | 12.5%      | Altura Ltd.          | 50%        | Leigh P. Wilber             | 0.609375%               | Burlington Resources               | 78.550000% |
|         |  |        |                          |                        |            | Conoco Inc.          | 50%        | Cristine P. Wiseman         | 0.609375%               | Oil & Gas Company                  | 18.232500% |
|         |  |        |                          |                        |            |                      |            | Constance P. Claassen       | 0.609375%               | Central Resources, Inc.            | 3.217500%  |
| 2A      | Lots 1 & 2, E/2 NW/4,<br>NW/4 SE/4,<br>Section 18, T18S, R33E,<br>Lea County, New Mexico | 204.27 | NM-93<br>HBP             | U.S.A.                 | 12.5%      | Burlington Resources | 100%       | Altura Energy, Ltd.         | 1.407650%               | Burlington Resources               | 78.550000% |
|         |  |        |                          |                        |            | Oil & Gas Company    |            |                             |                         | Oil & Gas Company                  | 18.766750% |
|         |  |        |                          |                        |            |                      |            |                             |                         | Santa Fe Energy<br>Resources, Inc. | 2.279063%  |
|         |  |        |                          |                        |            |                      |            |                             | Central Resources, Inc. | 0.402168%                          |            |
|         |  |        |                          |                        |            |                      |            |                             |                         | RKC, Inc.                          | 0.402168%  |

Exhibit "B"  
Attached to and made a part of the Corbin Delaware Unit Agreement dated June 1, 1998

| Tract # | Description of Land   | Acres  | Serial No.<br>Expiration | Basic Royalty<br>Owner | Percentage | Lessee of Record                          | Percentage | Overriding Royalty<br>Owner | Percentage | Working Interest Owner  | Percentage                            |
|---------|---|--------|--------------------------|------------------------|------------|---|------------|-----------------------------|------------|---|---------------------------------------|
| 2B      | W/2 NE/4,<br>Section 18, T18S, R33E,<br>Lea County, New Mexico            | 80     | NM-93<br>HBP             | U.S.A.                 | 12.5%      | Burlington Resources<br>Oil & Gas Company | 100%       | AMURA Energy, Ltd.          | 2.144995%  | Burlington Resources<br>Oil & Gas Company<br>Santa Fe Energy<br>Resources, Inc.   | 78.550000%<br>21.450000%              |
| 2C      | E/2 NE/4, NE/4 SE/4,<br>Section 18, T18S, R33E,<br>Lea County, New Mexico | 120    | NM-93<br>HBP             | U.S.A.                 | 12.5%      | Burlington Resources<br>Oil & Gas Company | 100%       |                             |            | Burlington Resources<br>Oil & Gas Company<br>Central Resources, Inc.<br>RKC, Inc. | 78.550000%<br>18.232500%<br>3.217500% |
|         | Total Unit Acres  | 566.36 |                          |                        |            |   |            |                             |            |   |                                       |

EXHIBIT "C"

ATTACHED TO AND MADE A PART OF THE  
CORBIN DELAWARE UNIT AGREEMENT  
DATED JUNE 1, 1998,  
LEA COUNTY, NEW MEXICO

| <u>TRACT NUMBER</u> | <u>UNIT PARTICIPATION PERCENT</u> |
|---------------------|-----------------------------------|
| 1A                  | 0.9267                            |
| 1B                  | 2.7012                            |
| 1C                  | 3.0286                            |
| 2A                  | 60.4946                           |
| 2B                  | 25.7023                           |
| 2C                  | <u>7.1466</u>                     |
| <b>TOTAL</b>        | <b>100.0000</b>                   |
| <b>STATE</b>        | 0.0000                            |
| <b>FEDERAL</b>      | 100.0000                          |
| <b>FEE</b>          | <u>0.0000</u>                     |
| <b>GRAND TOTAL</b>  | <b>100.0000</b>                   |

*Case 12046*

**UNIT OPERATING AGREEMENT**

**CORBIN DELAWARE UNIT**

**LEA COUNTY, NEW MEXICO**

**Date: June 1, 1998**



**UNIT OPERATING AGREEMENT**

**CORBIN DELAWARE UNIT**

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**UNIT OPERATING AGREEMENT  
CORBIN DELAWARE UNIT  
LEA COUNTY, NEW MEXICO**

THIS AGREEMENT, entered into as of the 1st day of June, 1998,

**WITNESSETH:**

WHEREAS, the Parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, for the Development and Operation of the Corbin Delaware Unit, hereinafter referred to as "Unit Agreement" which, among other things, provides for a separate agreement to be entered into by and between Working Interest Owners to provide for Unit operations as therein defined;

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

**ARTICLE 1**

**CONFIRMATION OF UNIT AGREEMENT**

- 1.1 Confirmation of Unit Agreement.** The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.
- 1.2 Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, the following terms, when used herein, shall have the following meanings:
- 1.2.1 Outside Substances** means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.
- 1.2.2 Unit Production** means all Unitized Substances produced and saved from the Unitized Formation.
- 1.2.3 Oil and Gas** means not only oil and gas as such in combination one with the other but means oil, gas, casinghead gas, casinghead gasoline, condensate, other hydrocarbons or associated minerals, or any combination thereof.
- 1.2.4 Oil and Gas Rights** means the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- 1.2.5 Lessee or Working Interest Owner** means an owner of a Working Interest, as defined in the Unit Agreement.
- 1.2.6 Royalty Owner** means an owner of a Royalty Interest as defined in the Unit Agreement.
- 1.2.7 Unit Participation** of each Lessee mean the sum of the percentages obtained by multiplying the Working Interest of such Lessee in each Tract by the Tract Participation of such Tract and is set forth in Exhibit "D" hereto.
- 1.2.8 Unit Operations** means all operations conducted by the Unit Operator pursuant to the Unit Agreement and this Agreement.

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

1.2.10 **Unit Expense** means all cost, expense or indebtedness incurred by the Unit Operator pursuant to the Unit Agreement and this Agreement.

1.2.11 **Person** means any individual, corporation, partnership, common law or statutory trust, association of any kind, the State of New Mexico or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind, or any entity capable of holding an interest in the Unit Area.

## ARTICLE 2

### EXHIBITS

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

2.1.1 **Exhibit A, B, and C** of the Unit Agreement being the Plat of the Unit Area, the Description and Ownership of the Unit Area, and the Tract Participation within the Unit Area, respectively.

2.1.2 **Exhibit D**, attached hereto, is a schedule showing the Working Interest owned by each Working Interest Owner in each Tract, and the total Unit Ownership of each Working Interest Owner.

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

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

2.1.5 **Exhibit G**, attached hereto, contains Equal Opportunity Clause applicable to Unit Operations.

2.1.6 **Exhibit H**, attached hereto, contains the Gas Balancing Agreement applicable to Unit Operations.

2.1.7 **Exhibit I**, attached hereto, contains the Memorandum of Unit Operating Agreement.

2.2 **Reference to and Revision of Exhibits.** When reference is made herein to an exhibit, it is to the original exhibit or, if revised, to the last revision. Whenever Exhibit A, B, or C are revised, Unit Operator shall also revise Exhibit D as necessary to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

## ARTICLE 3

### SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

3.2 **Specific Authority and Duties.** The Working Interest Owners, using the voting procedures given in Article 4.3, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:

- 3.2.1 Method and Plans of Operation.** The kind, character and method of operation, including any type of pressure maintenance or recovery program to be employed subject to approval of the AO.
- 3.2.2 Drilling of Wells.** The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances for use as an injection well, or for other purposes.
- 3.2.3 Well Abandonment, Use and Conversion.** The abandonment of any well; the use of any well for injection, salt water disposal, or any purpose other than production; or the conversion of the use of any well from one purpose to another. The reactivation of a well which was shut-in or temporarily abandoned to its former use by Unit Operator shall not require prior approval of Working Interest Owners if the estimated expenditure is less than the expenditure limitation specified in Section 3.2.4.
- 3.2.4 Expenditures.** The making of any single expenditure in excess of Fifty Thousand Dollars (\$50,000.00); however approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.
- 3.2.5 Disposition of Unit Equipment.** The selling or otherwise disposing of any item of surplus Unit Equipment, if the current price of new equipment similar thereto is in excess of Fifty Thousand Dollars (\$50,000.00).
- 3.2.6 Appearance Before a Court or Regulatory Agency.** The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, Unit Operator shall act as such representative in the absence of the designation of a different representative by Working Interest Owners. Such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.
- 3.2.7 Audits.** The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall:
- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
  - (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
  - (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
  - (d) be made upon not less than thirty (30) days written notice to Unit Operator.
- 3.2.8 Audit Exceptions.** The settlement of unresolved audit exceptions.
- 3.2.9 Inventories** The taking of periodic inventories under the terms of Exhibit E.
- 3.2.10 Amendment of Overhead Rates.** The amendment of the overhead rates provided in Section III of Exhibit E.
- 3.2.11 Technical Services.** The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit E.
- 3.2.12 Assignments to Committees.** The appointment of committees to study any problems in connection with Unit Operations.
- 3.2.13 Removal of Operator.** The removal of Unit Operator and the selection of a successor.
- 3.2.14 Changes and Amendments.** The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided by Article 11 of the Unit Agreement.
- 3.2.15 Investment Adjustment.** The adjustment and readjustment of investments.
- 3.2.16 Border Agreements.** The entering into Border Agreements.
- 3.2.17 Termination of Unit Agreement.** The termination of the Unit Agreement as provided therein.

## ARTICLE 4

### MANNER OF EXERCISING SUPERVISION

- 4.1 Designation of Representatives.** Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.
- 4.2 Meetings.** All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice and any meeting called must have a written agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.
- 4.3 Voting Procedure.** Working Interest Owners shall determine all matters coming before them as follows:
- 4.3.1 Voting Interest.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation.
- 4.3.2 Vote Required.** Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of Working Interest Owners having a combined voting interest of at least eighty percent (80%).
- 4.3.3 Vote at Meeting by Non-attending Working Interest Owner.** Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter, telegram, or facsimile transmission addressed to the representative of Unit Operator if its vote is received prior to the submission of such item to vote at the meeting. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.
- 4.3.4 Poll Votes.** Working Interest Owners may vote by letter, telegram or facsimile transmission on any matter submitted in writing to the all Working Interest Owners. If no meeting is requested, as provided in Section 4.2, within fourteen (14) days, including holidays and weekends, after a written proposal is sent to Working Interest Owners, the vote taken by letter, telegram or facsimile transmission shall control. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.
- 4.3.5 Binding Effect of Vote.** All Working Interest Owners shall be bound for their proportionate share of all costs and expenses of Unit Operations approved by the Working Interest Owners by the vote required herein.

## ARTICLE 5

### INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

- 5.1 Reservation of Rights.** Working Interest Owners severally reserve to themselves all their rights, powers, authority and privileges, except as otherwise provided in this Agreement and the Unit Agreement.
- 5.2 Specific Rights.** Each Working Interest Owner shall have, among others, the following specific rights:
- 5.2.1 Access to Unit Area.** Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.
- 5.2.2 Reports.** The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator

to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

- 5.3 Taking Unitized Substances in Kind.** The Unitized Substances allocated to each Tract shall be taken in kind by the parties entitled thereto by virtue of their ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right at their sole cost and expense to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the taking party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.
- 5.4 Failure to Take in Kind.** If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right but not the obligation, subject to revocation at will by the party owning the share, to purchase for its own account for not less than the same price the Unit Operator receives in an arms length transaction for its own Unit production at the Unit; 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 (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto on an individual Tract basis in accordance with applicable laws and regulations.
- 5.5 No Sharing of Market.** Nothing herein shall be construed to provide directly or indirectly for any cooperative refining, joint sale or marketing of Unit Production.
- 5.6 Reversionary Interest.** When a Tract Ownership will change due to the payout (or multiple payouts) of a well within the Unit, the balance remaining to be recovered will be calculated on an allocated Tract basis after the effective date of the Unit. Payout will be deemed to occur the first day following the time that payout occurs.

## ARTICLE 6

### UNIT OPERATOR

- 6.1 Unit Operator.** Burlington Resources Oil & Gas Company is hereby designated as the initial Unit Operator.
- 6.2 Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be removed for cause, at any time, by the affirmative vote of two or more Working Interest Owners representing eighty percent (80%) or more of the Working Interest after excluding the interest of the Unit Operator. Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period. Unit Operator shall be deemed to have resigned if it no longer owns a working interest in the unit area, effective as of the date of transfer of such working interest. In the event Unit Operator contracts to sell all of its working interest in the unit area to a party not a subsidiary, parent or sister corporation, then Unit Operator may require a vote to elect a successor Unit Operator. Such vote (i) shall be conducted as if Unit Operator had resigned, (ii) shall become effective only if the sale of Unit Operator's Working Interest is consummated, (iii) may include Unit Operator's intended transferee as a nominee for successor Unit Operator, and (iv) shall take Unit Operator's voting percentage into account, with Unit Operator being permitted to vote for its intended transferee. A transfer of Unit Operator's Working Interest to a subsidiary, parent or sister corporation shall not be deemed a resignation. However, should a transfer of Unit Operator's Working Interest be made to a subsidiary, parent or sister corporation, the Unit Operator upon written request shall supply documentation supporting financial stability of said subsidiary, parent or sister corporation.

- 6.3 **Selection of Successor.** Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. In selecting a successor Unit Operator, the affirmative vote of three (3) or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of two or more other Working Interest Owners have a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

## ARTICLE 7

### **AUTHORITY AND DUTIES OF UNIT OPERATOR**

- 7.1 **Exclusive Right to Operate Unit.** Subject to the provisions of this Agreement, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.
- 7.2 **Workmanlike Conduct.** Unit Operator shall conduct Unit Operations in a good and workmanlike manner, as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for losses sustained or liabilities incurred, even if such losses or liabilities are the result of Unit Operator's own negligence, unless such losses or liabilities result from its gross negligence or willful misconduct.
- 7.3 **Liens and Encumbrances.** Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except those provided for in Article 11.
- 7.4 **Employees.** The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator.
- 7.5 **Records.** Unit Operator shall keep correct books, accounts, and records of Unit Operations.
- 7.6 **Reports to Working Interest Owners.** Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.
- 7.7 **Reports to Governmental Authorities.** Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.
- 7.8 **Engineering and Geological Information.** Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the logs and other engineering and geological data pertaining to wells drilled for Unit Operations.
- 7.9 **Expenditures.** Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. In the event of an emergency, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.
- 7.10 **Wells Drilled by Unit Operator.** All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the usual rates prevailing in the area, and the work shall be

performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

- 7.11 **Border Agreements.** Unit Operator may, after determination of the need therefor by Working Interest Owners in accordance with the voting procedure set forth in Article 4, enter into border agreements with respect to lands adjacent to the Unit Area including those owned or operated by Unit Operator for the purpose of coordinating operations. Any border agreement negotiated by the Unit Operator must be approved by Working Interest Owners in accordance with the voting procedure set forth in Article 4. Failure to respond within thirty (30) days of receipt of a written request for approval will constitute approval.

## ARTICLE 8

### TAXES

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

Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, to protest and resist same.

If the ad valorem taxes are based in whole or in part upon separate valuations of each Party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Parties hereto in proportion to the tax value generated by each Party's Working Interest.

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

## ARTICLE 9

### INSURANCE

- 9.1 **Insurance.** Unit Operator, with respect to Unit Operations, shall:  
(a) provide insurance or other protection as set forth in Exhibit "F."

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

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

10.1.1 **Wells and Well Equipment.** All useable wells as defined in Article 10.1.4 in the Unitized Formation together with the casing, tubing and downhole equipment **therein** up to and including all well head connections.

10.1.2 **Lease and Operating Equipment.** All lease and operating equipment, salt water disposal wells and facility systems related to the Unitized Formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations, or

**10.1.2.1** Unit Operator deems necessary for the temporary convenience of the Unit. This shall include, but is not limited to, nonuseable wells (those not "Useable" pursuant to Article 10.1.4) that are completed in the Unitized Formation and capable of producing Unitized Substances. This equipment shall be retained on a loan basis for a period of time not to exceed eighteen (18) months. If this equipment is not returned within the period provided the Unit will purchase it as the same evaluation as the original inventory. The Unitized Formation will be abandoned per State requirements prior to return of nonuseable wells.

**10.1.3 Non-Useable Wells.** Unit may accept non-usable wellbores. Wellbores accepted without warranty of useable condition will be accepted without compensation to the owner(s) dedicating the wellbore to the Unit. Such wells will be accepted by the Unit only if cost estimates to workover or complete the wellbore in the unitized interval is less than the cost estimate to drill and complete a new well. Wellbores that will not benefit Unit operations will not be accepted by the Unit.

**10.1.4 Useable Wellbore Definition.** Useable wellbores are defined as wells with status as follows:

- (a) Wells active on Effective Date of Unitization will be accepted as useable if no zones other than the Unitized Formation are open and upon first entry by the Unit Operator the wellbore passes both a casing integrity test, defined as pressure testing a 500 psi for 30 minutes with a 10% tolerance (hereinafter "casing integrity test"), and a Bradenhead Integrity Test, defined as a test to insure there is no gas or liquid flow nor any sustained pressure from any casing annulus (hereinafter "Bradenhead Test") or in accordance with the State policies for casing integrity and Bradenhead tests at the time of unitization. It is the responsibility of the present operator of each well to be included in the Unit, to install the risers and valves necessary to perform a Bradenhead Test. If zones above the Unitized Formation are open, the non-unitized zones must be cement squeezed to isolate the Unitized Formation, pressure tested to 500 psi for 30 minutes (with a 10% tolerance) or in accordance with the State policy at the time of unitization, and cement in the production casing drill out.
- (b) Wells closed-in or temporarily abandoned on Effective Date of Unitization will be accepted as useable if no zones other than the Unitized Formation are open (as above) and the well is clear and free of obstructions from the surface to the depth of deepest production, or to the latest plugged back total depth, in the Unitized Formation prior to being closed in. The well must pass a casing integrity test and a Bradenhead Test on or before first entry by the Unit Operator.
- (c) Currently plugged and abandoned recompleted wells that have previously produced from the Unitized Formation will be accepted as useable if they are restored to the Unitized Formation's last producing completion interval, are not open in non-unitized zones, are clear and free of obstructions from the surface to the latest plugged back total depth prior to cessation of production, and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator.
- (d) Alternate wells from existing wellbores will be accepted as useable if all non-unitized zones have been abandoned (deeper zones plugged back with a cast iron bridge plug or cement retainer capped with 35 feet of cement and pressure tested to 500 psi; shallower zones squeeze cemented, cement drilled out in the production casing and pressure tested), they penetrate the Unitized Formation, have sufficient casing size (5-1/2") to be deepened or have at least (4-1/2") casing set in the Unitized Formation, are adequately cemented and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator.

**10.1.5 Wellbores Made Useable.** Once accepted by the Unit, wellbore owners may request that remedial work required to make a non-useable wellbore "Useable" be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine the required remedial work is technically feasible and can be performed on a timely basis, the Unit Operator may, at its sole discretion, agree to perform the required work. An AFE for such remedial work will be submitted to Working Interest Owners for their approval prior to the start of the remedial work, with the remedial expenses charged to the joint account.

**10.1.6 Wellbores Accepted as "Useable Wellbores."** Any wellbore dedicated to the Unit shall not be accepted as a "Useable Wellbore" until it can be entered by the Unit Operator and assessed pursuant to Article 10.1.4. Any well not so assessed within two (2) years following the effective date of unitization shall then be deemed a "Useable Wellbore."

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

**10.2 Inventory and Evaluation of Personal Property.** Unit Operator shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the Supervision of the Unit Operator and at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least fifteen (15) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit operations. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May 1071, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E," Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and it is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

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

**10.3 Investment Adjustment.** Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all wells and equipment taken over under Section 10.1. and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment taken over under Section 10.1 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

**10.4 General Facilities.** The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations, shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustments for lease roads or appurtenances thereto.

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

## ARTICLE 11

### UNIT EXPENSE

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

**11.2 Budgets.** Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and thereafter, shall prepare budgets, no more frequently than annually, as determined by Working Interest Owners. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

**11.3 Advance Billings.** Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense provided by Exhibit "E."

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

**11.5 Unpaid Unit Expense.** If any Working Interest Owner fails to pay or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the Unit Participation of all such non-defaulting Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 11.6 of this Agreement. While in default, any such defaulting Working Interest Owner forfeits his voting rights and such rights will be shared proportionately by the non-defaulting Working Interest Owners.

**11.6 Security Rights.** In addition to any other security rights and remedies provided for by the laws of this State with respect to services rendered or materials and equipment furnished under this Agreement, Unit Operator shall have a first and prior lien upon the Working Interest of each Working Interest Owner, including the Unitized Substances and Unit Equipment credited thereto, in order to secure payment of the Unit Expense charged against such Working Interest, together with interest thereon at the rate set forth in Exhibit "E" or the maximum rate allowed by law, whichever is less. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment of defaulting Working Interest Owner's share of Unit Expense. Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written

statement concerning the amount of any default. Operator grants a like lien and security interest to the Working Interest Owners to secure payment of Unit Operator's proportionate share of expense.

**11.6.1 Extent of Security.** The lien and security interest granted by each Working Interest Owner to Unit Operator and by Unit Operator to the Working Interest Owners under Article 11.6 shall extend not only to such Working Interest Owner's Oil and Gas Rights in the Unit Area (which for greater certainty shall include all of each Working Interest Owner's leasehold interest and leasehold estate in the Unit Area), the Oil and/or Gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating to or arising out of said Oil and Gas Rights, extracted Oil and Gas and said equipment or which are otherwise owned or held by any such Working Interest Owner in the Unit Area. Further, the lien and security interest of each of said parties shall extend to all proceed and products of all of the property and collateral subject to said lien and security interest. Any Working Interest Owner, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Unit Operating Agreement (or a memorandum of this Unit Operating Agreement or other notice of lien) as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code. Further, each Working Interest Owner agrees on request of any other Working Interest Owner to execute any financing statement, continuation statement or memorandum of this Unit Operating Agreement necessary in order to perfect the security interest and lien hereby granted under the applicable Uniform Commercial Code or state recording law.

**11.7 Carved-out Interest.** Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest after the effective date hereof shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Section 11.6 are insufficient for the purpose, the security rights provided for herein may be applied against the carved-out interests with such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Section 11.6.

**11.8 Uncommitted Royalty.** Should a owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payment computed on the basis of the Unitized Substances that are allocated to such Tract Under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participation at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

## ARTICLE 12

### NON-CONSENT PROVISION

**12.1 Election.** It is understood and agreed that any Working Interest Owner may elect to be carried hereunder, subject to the following terms and conditions: When Unit Operator circulates the Unit Agreement and Unit Operating Agreement for execution, Unit Operator shall also circulate a ballot under which a party elect: (a) whether it wishes to be carried; and (b) if it elects not to be carried, the amount of Working Interest as to which it is willing to assume additional participation pursuant to the terms hereof. Failure to return said ballot shall be deemed an election to be carried. In the event that, following the receipt of the Working Interest Owners' ratifications by Unit Operator, the Working Interest Owners, collectively, have not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall give all Working Interest Owners that have elected to Participate the option to increase the amount of additional participation they are willing to assume within ten (10) days of receiving notice of such option. Thereafter, Unit

Operator may elect to assume additional participation. If, following such contact, the Working Interest Owners, collectively, have still not agreed to assume participation as to one hundred percent (100%) of the Working Interest, Unit Operator shall not proceed with the Unitization which is the subject of this agreement. It is understood and agreed that, if the Unit Operating Agreement and the Unit Agreement do become effective under the respective terms thereof, and any parties that did not previously ratify the Unit Operating Agreement and the Unit Agreement, nevertheless become Working Interest Owners as a result of the Oil Conservation Division of the State of New Mexico (the "Division") approving this Unit pursuant to the New Mexico Statutory Unitization Act, such Working Interest Owners shall have the right to elect to participate in the Unit and to elect an amount of additional participation that they are willing to assume within thirty (30) days after said approval by the Division. Once all parties have made the elections allowed under the provisions hereof, the interest of those Working Interest Owners that have elected to be carried shall be allocated among those Working Interest Owners that have elected to participate in proportion to their Working Interest in the Unit, provided that no Working Interest Owner shall be allocated any additional participation in excess of the amount of participation which said Working Interest Owner has elected to assume.

**12.2 Non-Consent Penalty.** The entire cost and risk of conducting operations shall be borne by the Working Interest Owners in the proportion that they have elected to participate pursuant to the terms hereof (hereinafter, such Working Interest Owners shall be referred to as "Consenting Parties"). Each Working Interest Owner that has elected to be carried (hereinafter, such Working Interest Owners shall be referred to as "Non-Consenting Parties") 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 Parties' share of Unit Production (including its share of any Outside Substances produced and sold) until the proceeds of the sale of such share, calculated at the well, or the market value thereof if such share is not sold (after deducting production taxes, excise taxes, royalty or/and overriding royalty payable out of or measured by the production from such well accruing with respect to such interest) shall equal the Unit Expense accruing for such interest plus an amount equal to 200% of all of such Unit Expense allocated to such Non-Consenting Parties' Working Interest, it being further understood and agreed that the unpaid balance of any amount payable out of a Non-Consenting Party's interest hereunder (including the additional 200% of such expenses provided for above) shall bear interest at the rate of 2% above prime rate as established by the Chase Manhattan Bank of New York City to be determined monthly, or at the maximum contract rate permitted by the applicable usury laws, whichever is the lesser. It is expressly understood and agreed that, notwithstanding anything contained herein to the contrary, the 200% penalty provided for above shall be applied as follows: For any month in which a Non-Consenting Party's share of Unit Expense exceeds its share of Unit Revenues, the 200% penalty shall be applied to the difference between such expenses and revenue, and the resulting amount shall be added to the Non-Consenting Party's unpaid balance. For any month in which a Non-Consenting Party's share of Unit revenues exceeds its share of Unit expenses, no penalty shall be charged on such expenses, and the difference between such revenues and expenses shall be applied to such Non-Consenting Party's unpaid balance.

**12.3 Handling of Inventory Adjustment for Non-Consent Parties.** It is understood and agreed that Unit Operator shall promptly provide Working Interest Owners with notification of the approval of the inventory and valuation pursuant to Article 10, and that, with regard to any Working Interest Owner that has elected to be carried under Section 12.1, and has not had its Working Interest revert to it pursuant to the terms hereof, the following shall apply: (i) if such Working Interest Owner has a net charge against its interest following the inventory adjustment, such charge shall be considered an expense in the month in which the inventory adjustment is applied and shall be treated as any other expense under Sections 12.1 and 12.2 (ii) if such Working Interest Owner has a net credit against its interest following the inventory adjustment, the amount of such credit shall be applied to the outstanding balance of such Working Interest Owner in the same manner as revenue in the month in which the inventory adjustment is applied, and if the amount of such credit is sufficient for the Working Interest of such Working Interest Owner to revert to it pursuant to the terms hereof, such Working Interest shall revert, and the amount of any net credit remaining shall be paid to Working Interest Owner.

**12.4 Payoff of Non-Consent Party's Unpaid Balance.** Any Non-Consenting Party shall have the right, at any time, to pay off the amount of its net unpaid balance and, in the event that any Non-Consenting Party exercises this right, the Working Interest of such Non-Consenting Party shall revert to it on the month following the month of such payment.

## ARTICLE 13

### NON-UNITIZED FORMATIONS

- 13.1 **Right to Operate.** Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area, other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than the Unit Operator shall produce Unitized Substances. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely, including but not limited to a satisfactory drilling mud program and casing cement program through the Unitized Formation.
- 13.2 **Dual Completions.** There shall be no dual completions of wells within the Unit Area as to the Unitized Formation and another formation.

## ARTICLE 14

### LIABILITY, CLAIMS, AND SUITS

- 14.1 **Individual Liability.** The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.
- 14.2 **Settlements.** Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty-Five Thousand Dollars (\$25,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "E." If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.
- 14.3 **Notice of Loss.** Unit Operator shall report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage not covered by insurance carried for the benefit of Working Interest Owners.
- 14.4 **Force Majeure.** Any obligation imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by: strike, fire, war, civil disturbance, act of God, Federal, state or municipal laws, any rule, regulation or order of a governmental agency, inability to secure materials or by any other cause beyond the reasonable control of such party. No party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to any of the causes set forth in this Section.

## ARTICLE 15

### TITLES

- 15.1 **Warranty and Indemnity.** Each Working Interest Owner represents and warrants that it is the owner of the respective working interests as shown to be owned by it on appropriate Exhibits to this Agreement, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.
- 15.2 **Failure Because of Unit Operations.** The failure of title to any Working Interest in any Tract because of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.
- 15.3 **Unleased Interests Treated as Leased.** If a Working Interest Owner owns in fee all or in a part of the Oil and Gas Rights in any Tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract to the extent of seven-eighths (7/8) of its interest therein and a Royalty Interest with respect to the remaining one-eighth (1/8) interest therein.
- 15.4 **Waiver of Rights to Partition.** Each Lessee and Working Interest owner hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the interval of the formation unitized hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.
- 15.5 **Notice of Transfer of Title.** No change of title shall be binding on the Unit or Unit Operator until the time specified in Section 15.6 hereof. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligations of its predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the party or parties acquiring such interest all benefits attributable to such interest.
- 15.6 **Effect of Title Transfer.** No assignment or other transfer or disposition of any interest subject to this Agreement shall be effective as to Unit Operator or the other Working Interest Owners hereto until the first day of the month following the month in which (i) Unit Operator receives an authenticated copy of the instrument evidencing such assignment, transfer or disposition, and (ii) the person receiving such assignment, transfer or disposition has become obligated by instrument satisfactory to Unit Operator to observe, perform and be bound by all of the covenants, terms and conditions of this Agreement. Prior to such date, neither Unit Operator nor any other Working Interest Owner shall be required to recognize such assignment, transfer or disposition for any purpose but may continue to deal exclusively with the Working Interest Owner making such assignment, transfer or disposition in all matter under this Agreement including billings. No assignment or other transfer or disposition of an interest subject to this Agreement shall relieve a Working Interest Owner of its obligations accrued prior to the effective date aforesaid. Further, no assignment, transfer or other disposition shall relieve any Working Interest Owner of its liability for its share of costs and expenses which may be incurred in any operation to which such Working Interest Owner has previously agreed or consented prior to the effective date aforesaid for the drilling, testing, completing and equipping, reworking, recompleting, side-tracking, deepening, plugging-back, or plugging and abandoning of a well even though such operation is performed after said effective date.
- 15.7 **Transfer of Multiple Parties.** If, at any time the interest of any Working Interest Owner is divided among and owned by two or more co-owners, such co-owners shall appoint a single trustee or agent acceptable to Unit Operator with full authority to receive notices,

approve expenditures, receive billings for and approve and pay all such co-owners' share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such Working Interest Owners' interests within the scope of the operations embraced in this Agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof. Until the trustee or agent is appointed, the assigning Working Interest Owner shall be considered for all purposes thereof as such trustee or agent with all rights and responsibilities thereof. The trustee or agent appointed or deemed to be appointed hereunder shall be liable to Unit Operator for all costs, expenses and liabilities incurred pursuant to this Agreement attributable to the interest for which the trustee or agent is appointed or deemed to be appointed. Unit Operator shall not be required to account separately for the separate interests represented by the trustee or agent.

## ARTICLE 16

### NOTICES

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

## ARTICLE 17

### WITHDRAWAL OF WORKING INTEREST OWNER

- 17.1 Withdrawal.** A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transfer must be accepted unless Working Interest Owners decide within ninety (90) days of the delivery date to terminate the unit. The transferred interest shall be owned by the transferees in proportion to their Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same, including the cost of surface restoration of the Unit Area which may be required by law, rule, regulation, order, or contract, and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

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

such burdens. A transfer of title, assignment, or conveyance by a party hereto shall not alone be deemed a withdrawal.

## ARTICLE 18

### ABANDONMENT OF WELLS

- 18.1 Rights of Former Owners.** If Working Interest Owners determine to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of sixty (60) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within thirty (30) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment, through the wellhead, in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.
- 18.2 Plugging.** If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws, rules, and regulations.

## ARTICLE 19

### EFFECTIVE DATE AND TERM

- 19.1 Effective Date.** This Agreement shall become effective when the Unit Agreement becomes effective.
- 19.2 Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all wells in the Unit Area have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 18; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) all surface locations have been restored; and (d) there has been a final accounting.

## ARTICLE 20

### ABANDONMENT OF OPERATIONS

- 20.1 Termination.** Upon termination of the Unit Agreement, the following will occur:
- 20.1.1 Oil and Gas Rights.** Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the Parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.
- 20.1.2 Right to Operate.** Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value, as determined by Working Interest Owners, of the casing and equipment, through the wellhead, in and on the wells taken over, by filing all applicable regulatory forms for change of operator and financial security, by agreeing upon abandonment to plug each well and assume all surface restoration obligations and any other expense associated with non-unit operations in compliance with applicable laws, rules, regulations, orders and contractual obligations.
- 20.1.3 Salvaging Wells.** Unit Operator shall salvage as much of the Unit Equipment not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned and

the surface of the Unit Area restored in compliance with applicable laws, rules, regulations, orders, and contractual obligations.

**20.1.4 Cost of Abandonment.** The cost of abandonment of Unit Operations, including but not limited to facilities and surface restoration, shall be Unit Expense.

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

## ARTICLE 21

### APPROVAL

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

**21.2 Conflict with Prior Agreements.** It is recognized there may be certain existing agreements by and between several of the Lessees or Working Interest Owners hereto, covering a portion of the Oil and Gas Rights subject to this Operating Agreement. In case of any inconsistency or conflict between this Operating Agreement and those certain agreements, this Operating Agreement shall govern.

## ARTICLE 22

### GOVERNMENTAL REGULATIONS

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

## ARTICLE 23

### OTHER PROVISIONS

**23.1 Lease Burdens and Disbursement Obligations.** Each Working Interest Owner hereby agrees to pay or cause to be paid royalty, excess royalty and overriding royalty portion(s) due on proceeds realized from the sale of its share (as listed on Exhibit "C") of the sale of such Unitized Substances.

**23.2 Attorney's Fees.** In the event Unit Operator shall ever be required to bring legal proceedings in order to collect any sums due from any Working Interest Owner under this Agreement, then Unit Operator shall also be entitled to recover all court costs, cost of collection, and a reasonable attorney's fee, which the lien provided for under Sections 11.6 and 11.6.1 shall also secure.

**23.3 Bankruptcy.** If, following the granting of relief under the Bankruptcy Code to any Working Interest Owner hereto as debtor thereunder, this Agreement should be held to be

an executory contract within the meaning of 11 U.S.C. Section 365, then the Unit Operator, or (if the Unit Operator is the debtor in bankruptcy) and other Working Interest Owner, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Unit Operating Agreement. In the event of an assumption, Unit Operator or said other Working Interest Owner shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

**23.4 Applicable Law.** All claims and suits between any of the parties hereto, made or instituted and based in whole or in part on any provisions of this Agreement, shall be resolved using the laws of the State of New Mexico.

**23.5 Media Release.** Operator shall have the principal responsibility for issuance of press releases concerning the Unit (but shall not be liable for failure or error in exercising such responsibility), and each other party hereto may issue approved material without restriction. Nothing herein contained, however, shall preclude any party hereto from making such disclosures as may be required by any applicable law, order, rule, regulation or ordinance.

No party hereto shall distribute any information or photographs to the press or other media without the approval of the majority of the parties hereto pursuant to Article 4.3.2.

## ARTICLE 24

### SUCCESSORS AND ASSIGNS

**24.1 Successor and Assigns.** This Agreement shall extend to, be binding upon, and inure to the benefit of the Persons hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

**IN WITNESS WHEREOF,** the Parties hereto have executed this Agreement on the dates opposite their respective signatures.

**UNIT OPERATOR:**

BURLINGTON RESOURCES  
OIL & GAS COMPANY

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

\_\_\_\_\_  
Dennis Sledge, Attorney-in-Fact

**UNIT NON-OPERATORS:**

SANTA FE ENERGY RESOURCES, INC.

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

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

CENTRAL RESOURCES, INC.

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

RKC, INC.

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

STATE OF TEXAS §

§

COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by Dennis Sledge, Attorney-in-Fact of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, on behalf of said corporation.

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

STATE OF TEXAS §

§

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_, \_\_\_\_\_ of SANTA FE ENERGY RESOURCES, INC. a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF COLORADO §

§

COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_, \_\_\_\_\_ of CENTRAL RESOURCES, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF CONNETICUT §  
  §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998,  
by \_\_\_\_\_, \_\_\_\_\_ of RKC, INC.  
\_\_\_\_\_ corporation, on behalf of said corporation.

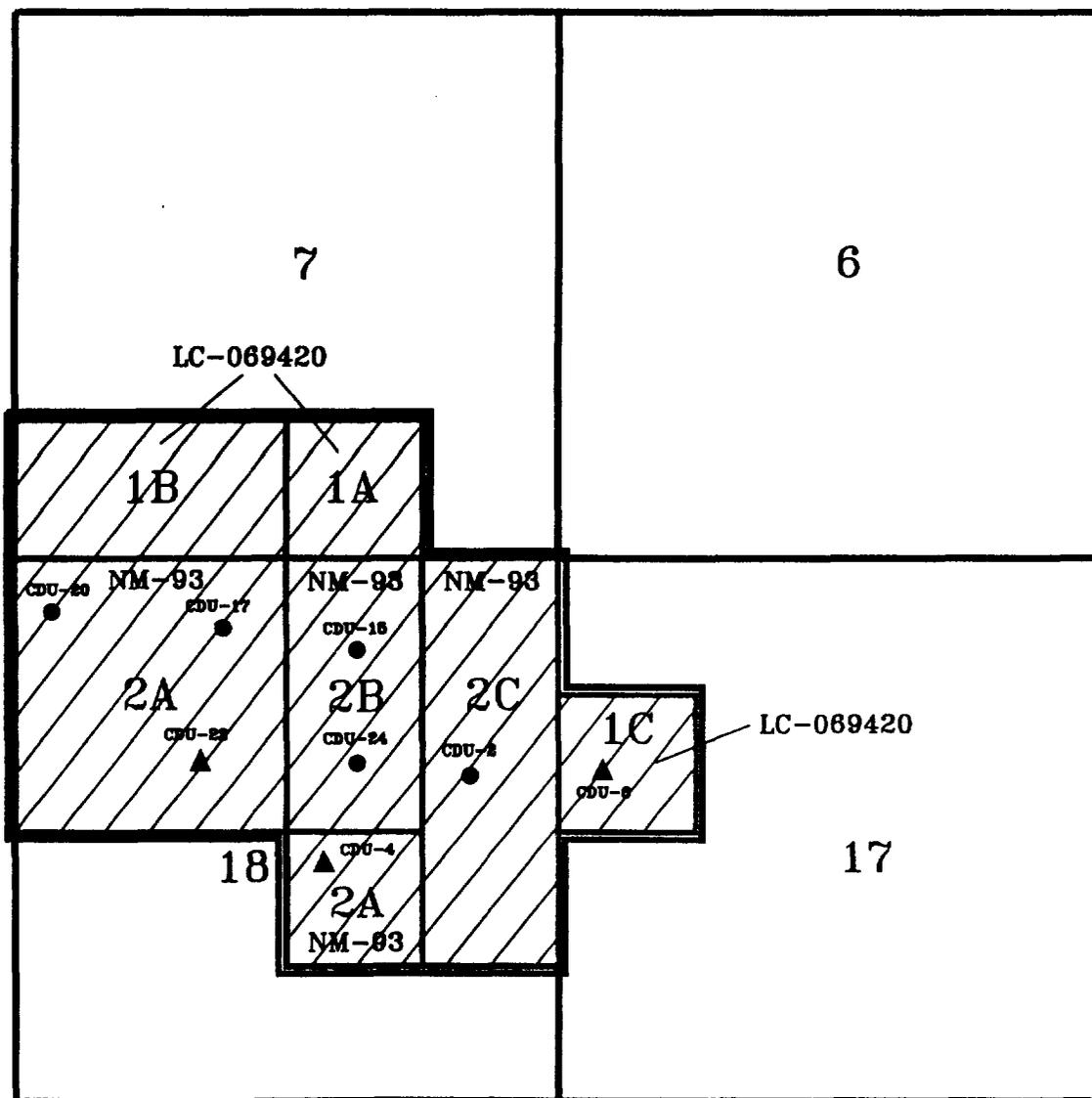
\_\_\_\_\_  
Notary Public

# Exhibit "A"

## to Unit Operating Agreement

### Corbin Delaware Unit Lea County, New Mexico

TOWNSHIP 18 SOUTH, RANGE 33 EAST



- UNIT BOUNDARY
- 1B TRACT NUMBER
- FEDERAL LANDS  
566.36 Acres

Exhibit "B"  
Attached to and made a part of the Corbin Delaware Unit Operating Agreement dated June 1, 1998

| Tract # | Description of Land  | Acres  | Serial No.<br>Expiration | Basic Royalty<br>Owner  | Percentage | Lessee of Record                          | Percentage            | Overriding Royalty<br>Owner | Percentage              | Working Interest Owner | Percentage |
|---------|--|--------|--------------------------|-------------------------|------------|---|-----------------------|-----------------------------|-------------------------|------------------------|------------|
| 1A      | SW/4 SE/4,<br>Section 7, T18S, R33E,<br>Lea County, New Mexico                           | 40     | LC-069420<br>HBP         | U.S.A.                  | 12.5%      | Altura Ltd.<br>Conoco Inc.                | 50%                   | Leigh P. Wilber             | 0.609375%               | Burlington Resources   | 78.550000% |
|         |  |        |                          |                         | 50%        |   | Cristine P. Wiseman   | 0.609375%                   | Oil & Gas Company       |                        |            |
|         |  |        |                          |                         |            |   | Constance P. Claassen | 0.609375%                   | Santa Fe Energy         | 18.768750%             |            |
|         |  |        |                          |                         |            |   | Lynn P. Yedinak       | 0.609375%                   | Resources, Inc.         |                        |            |
| 1B      | Lot 4, SE/4 SW/4,<br>Section 7, T18S, R33E,<br>Lea County, New Mexico                    | 82.09  | LC-069420<br>HBP         | U.S.A.                  | 12.5%      | Altura Ltd.<br>Conoco Inc.                | 50%                   | Leigh P. Wilber             | 0.609375%               | Burlington Resources   | 78.550000% |
|         |  |        |                          |                         | 50%        |   | Cristine P. Wiseman   | 0.609375%                   | Oil & Gas Company       |                        |            |
|         |  |        |                          |                         |            |   | Constance P. Claassen | 0.609375%                   | Santa Fe Energy         | 10.725000%             |            |
|         |  |        |                          |                         |            |   | Lynn P. Yedinak       | 0.609375%                   | Resources, Inc.         |                        |            |
| 1C      | SW/4 NW/4,<br>Section 17, T18S, R33E,<br>Lea County, New Mexico                          | 40     | LC-069420<br>HBP         | U.S.A.                  | 12.5%      | Altura Ltd.<br>Conoco Inc.                | 50%                   | Leigh P. Wilber             | 0.609375%               | Burlington Resources   | 78.550000% |
|         |  |        |                          |                         | 50%        |   | Cristine P. Wiseman   | 0.609375%                   | Oil & Gas Company       |                        |            |
|         |  |        |                          |                         |            |   | Constance P. Claassen | 0.609375%                   | Central Resources, Inc. | 18.232500%             |            |
|         |  |        |                          |                         |            |   | Lynn P. Yedinak       | 0.609375%                   | RKC, Inc.               | 3.217500%              |            |
| 2A      | Lots 1 & 2, E/2 NW/4,<br>NW/4 SE/4,<br>Section 18, T18S, R33E,<br>Lea County, New Mexico | 204.27 | NM-93<br>HBP             | U.S.A.                  | 12.5%      | Burlington Resources<br>Oil & Gas Company | 100%                  | Altura Energy, Ltd.         | 1.407650%               | Burlington Resources   | 78.550000% |
|         |  |        |                          |                         |            |   |                       |                             |                         | Oil & Gas Company      |            |
|         |  |        |                          |                         |            |   |                       |                             |                         | Santa Fe Energy        | 18.768750% |
|         |  |        |                          |                         |            |   |                       |                             |                         | Resources, Inc.        |            |
|         |  |        |                          | Central Resources, Inc. | 2.279063%  |   |                       |                             |                         |                        |            |
|         |  |        |                          | RKC, Inc.               | 0.402188%  |   |                       |                             |                         |                        |            |

Exhibit "B"

Attached to and made a part of the Corbin Delaware Unit Operating Agreement dated June 1, 1998

| Location of Land                        | Acres  | Serial No.<br>Expiration | Basic Royalty<br>Owner | Percentage | Lessee of Record                          | Percentage | Overriding Royalty<br>Owner | Percentage | Working Interest Owner  | Percentage                            |
|---|--------|--------------------------|------------------------|------------|---|------------|-----------------------------|------------|---|---------------------------------------|
| NE/4,<br>T18S, R33E,<br>New Mexico      | 80     | NM-93<br>HBP             | U.S.A.                 | 12.5%      | Burlington Resources<br>Oil & Gas Company | 100%       | Altura Energy, Ltd.         | 2.144995%  | Burlington Resources<br>Oil & Gas Company<br>Santa Fe Energy<br>Resources, Inc.   | 78.550000%<br>21.450000%              |
| NE/4 SE/4,<br>T18S, R33E,<br>New Mexico | 120    | NM-93<br>HBP             | U.S.A.                 | 12.5%      | Burlington Resources<br>Oil & Gas Company | 100%       |                             |            | Burlington Resources<br>Oil & Gas Company<br>Central Resources, Inc.<br>RKC, Inc. | 78.550000%<br>18.232500%<br>3.217500% |
| Jnit Acres                              | 566.36 |                          |                        |            |   |            |                             |            |   |                                       |

**EXHIBIT "C"**

ATTACHED TO AND MADE A PART OF THE  
CORBIN DELAWARE UNIT OPERATING AGREEMENT  
DATED JUNE 1, 1998,  
LEA COUNTY, NEW MEXICO

| <b>TRACT NUMBER</b> | <b>UNIT PARTICIPATION PERCENT</b> |
|---------------------|-----------------------------------|
| 1A                  | 0.9267                            |
| 1B                  | 2.7012                            |
| 1C                  | 3.0286                            |
| 2A                  | 60.4946                           |
| 2B                  | 25.7023                           |
| 2C                  | <u>7.1466</u>                     |
| <b>TOTAL</b>        | <b>100.0000</b>                   |
| <b>STATE</b>        | 0.0000                            |
| <b>FEDERAL</b>      | 100.0000                          |
| <b>FEE</b>          | <u>0.0000</u>                     |
| <b>GRAND TOTAL</b>  | <b>100.0000</b>                   |

**EXHIBIT "D"**

Attached To And Made a Part Of The  
Corbin Delaware Unit Operating Agreement  
Dated June 1, 1998,  
Lea County, New Mexico

**WORKING INTEREST OWNER SUMMARY**

| <b>WORKING INTEREST OWNER</b>                     | <b>TRACT NUMBER(S)</b> | <b>PARTICIPATION PERCENTAGES</b> |
|---|------------------------|----------------------------------|
| <b>Burlington Resources Oil &amp; Gas Company</b> | 1A                     | 0.7280                           |
|   | 1B                     | 2.1218                           |
|   | 1C                     | 2.3790                           |
|   | 2A                     | 47.5185                          |
|   | 2B                     | 20.1891                          |
|   | 2C                     | <u>5.6136</u>                    |
|   | <b>TOTAL</b>           |                                  |
| <b>Central Resources, Inc.</b>                    | 1A                     | 0.0211                           |
|   | 1B                     | 0.2462                           |
|   | 1C                     | 0.5522                           |
|   | 2A                     | 1.3787                           |
|   | 2C                     | <u>1.3030</u>                    |
|   | <b>TOTAL</b>           |                                  |
| <b>Santa Fe Energy Resources, Inc.</b>            | 1A                     | 0.1739                           |
|   | 1B                     | 0.2897                           |
|   | 1C                     | 0.0000                           |
|   | 2A                     | 11.3541                          |
|   | 2B                     | <u>5.5131</u>                    |
|   | <b>TOTAL</b>           |                                  |
| <b>RKC, Inc.</b>                                  | 1A                     | 0.0037                           |
|   | 1B                     | 0.0435                           |
|   | 1C                     | 0.0974                           |
|   | 2A                     | <b>0.2433</b>                    |
|   | 2C                     | <u>0.2299</u>                    |
|   | <b>TOTAL</b>           |                                  |
| <b>GRAND TOTAL</b>                                |                        | <b>100.0000</b>                  |

## EXHIBIT

" E "

Attached to and made a part of The Corbin Delaware Unit Operating Agreement dated June 1, 1998

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Texas Commerce Bank 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.

## 5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

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

### 2. Rentals and Royalties

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

### 3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. Employee Benefits

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

### 5. Material

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

### 6. Transportation

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

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

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

#### 7. Services

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

#### 8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

#### 9. Damages and Losses to Joint Property

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

#### 10. Legal Expense

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

#### 11. Taxes

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

#### 12. Insurance

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

#### 13. Abandonment and Reclamation

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

#### 14. Communications

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

#### 15. Other Expenditures

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

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

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

- (  ) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B

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

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

- ( ) shall be covered by the overhead rates, or  
 (  ) shall not be covered by the overhead rates.

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

- (  ) shall be covered by the overhead rates, or  
 ( ) shall not be covered by the overhead rates.

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 500.00

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

##### (a) Drilling Well Rate

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

##### (b) Producing Well Rates

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

#### B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:

## (a) Development

\_\_\_\_\_ Percent ( \_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

## (b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

## (2) Application of Overhead - Percentage Basis shall be as follows:

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

**2. Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- 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 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

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

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

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

C. Other Used Material

(1) Condition C

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

**(2) Condition D**

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

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

**(3) Condition E**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished By Operator**

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

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

**4. Expense of Conducting Inventories**

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

**EXHIBIT "F"**

**"ONSHORE"**

Attached to and made a part of  
The Corbin Delaware Unit Operating Agreement  
dated June 1, 1998

**INSURANCE**

To protect against liability, loss or expense arising from damage to property, injury or death of any person or persons, incurred out of, in connection with, or resulting from the operations provided hereunder, Operator shall maintain in force during the entire period of this agreement the following Schedule A insurance coverage for the benefit of the joint account. Schedule B coverages are the minimum limits and type of insurances required to be maintained by Operator and each Non-Operator as to their respective working interest. All Schedule A and Schedule B insurance shall be obtained from financially sound, Best rate B+ Class VI or above reliable insurance companies authorized to do business in the state in which the operations are to be performed. Each policy shall provide for a waiver of subrogation rights against the other signatory parties.

**SCHEDULE A - OPERATOR FOR THE JOINT ACCOUNT**

| <b><u>COVERAGES</u></b>  | <b><u>LIMITS OF LIABILITY</u></b>                       |
|--------------------------|---|
| a. Workers' Compensation | Statutory   |
| b. Employers' Liability  | Combined Single Limit<br>Per occurrence of \$1,000,000. |

**SCHEDULE B - OPERATOR AND EACH NON-OPERATOR AS TO ITS WORKING INTEREST**

Each working interest owner's insurance is intended to cover such owner's working interest in the Joint Account and its coverages respond to such owner's pro-rata share of any Joint Account loss.

| <b><u>COVERAGES</u></b>   | <b><u>LIMITS OF LIABILITY</u></b>  |
|---|--|
| a. Comprehensive General Liability including Personal Injury, Premises/ Operations coverage, Owners and Contractors Protective Liability, Contractual Liability, Products and Completed Operation Liability |  |
| Bodily Injury Liability/<br>Property Damage Liability   | Combined Single Limit<br>Per occurrence of \$5,000,000                                   |
| b. Comprehensive Automobile Liability including coverage of Owned and Non-Owned Automobiles and Hired Car coverage  |  |
| Bodily Injury Liability/<br>Property Damage Liability   | Combined Single Limit<br>Per occurrence of \$5,000,000                                   |
| c. Control of Well including Clean-Up Containment, Seepage, Pollution, Contamination, and Redrilling Expense  | Per occurrence of each working interest owner's share of \$20,000,000, but not less than |

(This coverage is maintained while drilling from spudding to completion.)

\$1,000,000

**COVERAGES**

**LIMITS OF LIABILITY**

**EXAMPLE:** A Non-Operator owning a 20% working interest in the Joint Account properties is required to carry a minimum of 20% x \$20,000,000 or \$4,000,000 Control of Well coverage, but a 4% Working Interest Owner is required to carry a minimum of \$1,000,000 coverage.

**Note:** If a Non-Operator elects not to purchase Control of Well coverage direct to protect his working interest, he may elect to participate in Operator's coverage at a premium rate heretofore determined by Operator and available to all Non-Operators upon request.

- d. If Aircraft, including helicopters, are used in operations, include Aircraft Liability, Passenger Liability and Property Damage Liability Insurance covering Owned, Non-Owned Aircraft and Hired Aircraft Combined Single Limit  
Per occurrence of \$5,000,000
  
- e. If Watercraft are used in any inland operations:
  - (a) Protection and Indemnity Insurance on the SP23 form or equivalent, (or, in the alternative, deletion of the watercraft exclusion from the Comprehensive General Liability Policy) Combined Single Limit  
Per occurrence of \$10,000,000
  
  - (b) Hull and Machinery Insurance to the market value of the vessel or \$1,000,000, whichever is greater, on the American Institute Hull Clause (June 2, 1977) form or its equivalent
  
- f. Property (excluding Business Interruption) Blanket limit

Operator may include the Schedule A coverage for the joint account under its self insurance program provided Operator complies with applicable laws, and in such an event Operator shall charge to the Joint Account manual rate premiums.

Operator, as a working interest owner, shall also obtain for his own account the minimum insurances and limits required by Schedule B. These insurances obtained by Operator and Non-Operators will respond to a loss on a pro-rata working interest basis, and not as primary, to any other valid and collectible insurances. Non-Operators will not be additional insurers on Operator's policy unless specifically agreed to by Operator and the appropriate premium charged Non-Operator. Failure of the Operator to maintain its required Schedule A and Schedule B

insurance coverages shall be deemed cause for removal of Operator as the operator of the joint properties at the option of a majority in interests of the Non-Operators as provided in the Joint Operating Agreement to which this Exhibit "D" is attached.

Operator shall not be obligated to obtain or carry on behalf of the Joint Account any insurance additional to Schedule A but may, at its discretion, provide additional coverage to a Non-Operator(s) for the operations to be conducted hereunder. Each Non-Operator shall acquire at its own expense the Schedule B coverage and such excess insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations. Such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. Joint Account deductibles and uninsured losses shall be borne by the Parties in proportion to their respective working interests.

Deductibles and/or limits established by Operator's Schedule A coverages shall apply to all Non-Operators on a working interest share basis and premiums for Schedule A coverage and losses falling within the deductible, or which exceed insurable limits, or which are otherwise not covered by insurance will be expenses of the Joint Account.

Each Non-Operator shall furnish Operator with Certificates of Insurance evidencing satisfactory Schedule B coverages are in force, and Operator shall furnish each Non-Operator, upon request, with Certificates of Insurance evidencing Schedule A coverage and all Schedule B coverages that are in force.

The Certificates of Insurance specifying Schedule B coverage must be provided by each Non-Operator to Operator within 10 working days from execution hereof or commencement of operations hereunder, whichever is earlier. Failure of a Non-Operator to provide Certificates of Insurance within the required time period will authorize Operator to either (i) purchase the required insurance for such Non-Operator and bill the Non-Operator for the cost thereof, (ii) add the Non-Operator as an additional insured to the Operator's policy and automatically allocate, without refund, the first year's insurance premium to the Non-Operator, or (iii) notify the other Non-Operators that the Non-Operator's working interest is uninsured or underinsured.

Operator shall promptly notify Non-Operators in writing of all losses involving damage to a Joint Account property in excess of \$250,000.

Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Worker's Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

## **EXHIBIT "G"**

Attached to and made a part of  
The Corbin Delaware Unit Operating Agreement  
dated June 1, 1998

### **I EQUAL EMPLOYMENT OPPORTUNITY PROVISION**

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

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

subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States. Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission, and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

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

## II. CERTIFICATION OF NONSEGREGATED FACILITIES

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

## III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

#### IV. VETERAN'S PREFERENCE

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

##### "CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT:

- A. As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required; provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.
- B. The contractor agrees to place the above provision in any subcontract directly under this contract.

#### V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

## EXHIBIT "H"

Attached to and made a part  
The Corbin Delaware Unit Operating Agreement  
dated June 1, 1998

### GAS BALANCING AGREEMENT

#### ARTICLE I

##### Definitions

1.01 For the purposes of this Agreement, the terms set forth below shall have the meanings herein ascribed to them.

(a) "Balance" is the condition existing when a Party has disposed of a cumulative volume of Gas from a Well which is equal to such Party's Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well. For purposes of Balancing, references herein to price, value and volume shall be adjusted or calculated on a Btu basis.

(b) "Btu" is one British thermal unit, which is the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit from 58.5° Fahrenheit to 59.5° Fahrenheit, at 14.73 pounds per square inch absolute. The term "MMBtu" refers to one million (1,000,000) Btu's.

(c) "FERC" refers to the Federal Energy Regulatory Commission, or any similar or successor agency, state or federal.

(d) "Gas" includes all hydrocarbons produced or producible from a Well, whether from a Well classified as an oil Well or gas Well by the regulatory agency having jurisdiction in such matters, which are or may be made available at the Measurement Point for sale or separate disposition by the Parties, excluding oil, condensate and other liquids separated upstream from the Measurement Point. "Gas" does not include gas used for joint operations, or gas which is vented or lost, prior to delivery at the Measurement Point. Reference herein to the right to "dispose of" Gas or Gas "disposed of" includes all methods of disposition of Gas, including taking in kind, delivering in kind to a Lessor, sales to a Party or third party or an affiliate, or gas used by a Party for purposes other than joint operations.

(e) "Imbalance" refers to either the Overproduction of an Overproduced Party or the Underproduction of an Underproduced Party, as applicable.

(f) "Make-up Gas" refers to that incremental volume of Gas, up to but not exceeding forty percent (40%) of the Percentage Ownership of an Overproduced Party in the Gas which can be produced from a Well which an Underproduced Party is entitled to dispose of in accordance with this Agreement in order to Make up its Imbalance.

(g) "Mcf" means the quantity of Gas occupying a volume of one thousand (1,000) cubic feet at a temperature of sixty degrees Fahrenheit (60°F) and a pressure of fourteen and seventy-three hundredths pounds per square inch absolute (14.73 psia).

(h) "Measurement Point" refers to the outlet side of the jointly owned production facilities, or such other point mutually agreeable where Gas from a Well is measured after the separation of oil, condensate or other liquids.

(i) "Operator" refers to The Operator under the terms of the Operating Agreement.

(j) "Overproduced" is the condition existing when a Party has disposed of a greater cumulative volume of Gas from the Corbin Delaware Unit (Unit) than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Unit.

(k) "Party" means any party subject to the Unit Operating Agreement. "Parties" means all parties subject to the Unit Operating Agreement.

(l) The "Percentage Ownership" of each Party is equal to that Party's percentage or fractional interest in the Unit, as determined under the terms of the Unit Operating Agreement.

(m) "Underproduced" is the condition existing when a Party has disposed of a lesser cumulative volume of Gas from the Unit than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Unit.

(n) The terms "Underproduction" and "Overproduction" refer to that lesser or greater incremental volume of Gas which a Party would have disposed of from the Unit, on a monthly or cumulative basis, if it had disposed of its Percentage Ownership of Gas from the Unit.

(o) "Well" means a well drilled on the Contract Area covered by the Unit Operating Agreement and capable of producing Gas.

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

## ARTICLE II Scope and Term of Agreement

2.01 This Agreement establishes a single gas balancing agreement for the Unit.

2.02 This Agreement shall terminate, the earlier of (a) when the oil and gas lease(s) subject to the Unit terminate, or (b) when production from such Unit permanently ceases and the Gas accounts for such Unit are brought into Balance pursuant to this Agreement.

## ARTICLE III Right to Produce and Ownership of Gas

3.01 Subject to the rights of an Underproduced Party to produce and dispose of Make-up Gas pursuant to this Agreement, each Party shall own and be entitled to produce and dispose of its Percentage Ownership of Gas which can be produced from the Unit. During any month when a Party does not dispose of its entire Percentage Ownership of such Gas, the other Parties shall be entitled to produce and dispose of all or any portion of such Gas; provided, that to the extent such Parties desire to dispose of more Gas than is available, they shall share in such Gas in the proportion that each such Party's Percentage Ownership bears to the combined Percentage Ownership of all Parties desiring to dispose of such Gas.

3.02 As between the Parties hereto, each Party shall own and be entitled to the Gas disposed of by such Party for its sole account, and the proceeds thereof, including constituents contained therein that are recovered downstream from the Measurement Point. If at any time, and from time to time, a Party is Underproduced with respect to the Unit, its Underproduction shall be deemed to be in storage in the Unit, subject to the right of such Party to produce and dispose of such Gas at a later time.

## ARTICLE IV Make-Up Gas

4.01 In order to make up an Imbalance, each Underproduced Party in the Unit shall have the right, after thirty (30) days written notice to the Operator, to produce and dispose of Make-Up Gas, subject to the following rules:

(a) An Overproduced Party shall not be required to furnish Make-Up Gas unless an Underproduced Party is first taking or disposing of its full Percentage Ownership of Gas from the Unit; and

(b) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than its Percentage Ownership of Gas which can be produced from the Unit during the months of January, February, and December of a calendar year; and

(c) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than sixty percent (60%) of such Overproduced Party's Percentage Ownership of Gas which can be produced from the Unit; and

(d) If there is more than one Overproduced Party, the Make-Up Gas will be taken from the Overproduced Parties in the proportion that each Overproduced Party's Percentage Ownership in a Well bears to the total Percentage Ownership of all Overproduced Parties in the Unit; and

(e) If there is more than one Underproduced Party who desires and is able to dispose of Make-Up Gas in a month, each Underproduced Party will share in the Make-Up Gas in the proportion which its Percentage Ownership in a Well bears to the total Percentage Ownership of all Underproduced Parties in the Unit disposing of Make-Up Gas that month.

4.02 The provisions of this Article IV shall constitute an Underproduced Party's exclusive rights and an Overproduced Party's exclusive obligations with regard to the right of an Underproduced Party to require an Overproduced Party to furnish Make-Up Gas.

4.03 Nothing herein shall be construed to deny any Party the right from time to time to produce and deliver its full Percentage Ownership of Gas in the Unit for the purpose of conducting deliverability tests pursuant to its gas purchase contracts.

## ARTICLE V Balancing of Gas Accounts

5.01 The Operator shall have the right of controlling production and deliveries of Gas and administering the provisions of this Agreement. The Operator shall use its best efforts to cause Gas to be delivered at the Measurement Point in such manner and at such rates as may be required, from time to time, to give effect to the intent that any Imbalances shall be brought into Balance in accordance with the provisions hereof. The Operator shall only be liable for its failure to make deliveries of Gas in accordance with the terms of this Agreement if such failure is due to its gross negligence or willful misconduct.

5.02 The Operator will maintain a separate Gas account for each Party in the Unit. The Operator will furnish each Party quarterly a report showing the total Mcf of gas produced from the Unit, the Mcf used in joint operations, or which was vented or lost, the Mcf of Gas disposed by each Party, each Party's Overproduction or Underproduction for each month during the preceding calendar quarter, and the cumulative Imbalance of all Parties in the Unit at the end of each month during such quarter. The Imbalance of an Underproduced Party shall be made up on a month-to-month basis and in the order of accrual; i.e., any Gas taken by any Underproduced Party over and above the monthly amount attributable to its Percentage Ownership shall be credited against and offset its first Underproduction from time-to-time.

5.03 Each Party shall retain all data, information and records pertaining to the Gas taken and disposed of by such Party in a Well during periods of Imbalance hereunder, including, but not limited to, records pertaining to the volumes of Gas disposed of, the gross and net proceeds received from the disposition of such Gas, and the information utilized to adjust volumes and prices on a Btu basis, for a period expiring three (3) years after the termination of this Agreement as to such Well.

5.04 During the term of this Agreement, each Party shall have the right to request information from and to audit the records of the Operator and any other Party as to all matters concerning volumes, Btu adjustments, prices and disposition of Gas from the Unit. These rights shall extend until three (3) years after the expiration of this Agreement. Any audit shall be conducted, at the expense of the Party of 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. If more than one Party desires to audit the records of another Party, then all such Parties shall cooperate with each other in order that only one audit shall be conducted in any twelve (12) month period.

## ARTICLE VI Cash Settlement of Imbalance

6.01 When production from the Unit permanently ceases, the Operator shall render its final account of the cumulative Imbalance of all Parties within sixty (60) days after receiving the information requested as hereafter provided. Within thirty (30) days of Operator's request, each Overproduced Party shall provide information to Operator sufficient for the preparation of such statements including, but not limited to the net price received for its Overproduction and each Underproduced Party shall submit to Operator such data and information evidencing its payment of all royalties, overriding royalties, production burdens and taxes on its Underproduction which it was obligated to pay. Each Overproduced Party shall account to and pay each Underproduced Party within sixty (60) days of Operator's final account a sum of money equal to the net price on the Underproduction which an Underproduced Party was entitled to receive from an Overproduced Party. All past due payments due Underproduced Parties shall bear interest at the prime rate of interest in effect from time to time of Chemical Bank, N.Y. from date due until date paid. Net price for cash settlements herein shall be determined in accordance with Paragraph 6.02.

6.02 The net price for cash settlements (without interest) under this Article VI shall be the price actually received by the Overproduced Party for the sale of the Overproduction at the time the Overproduction accrued less production, severance and other similar taxes, fees or levies thereon and less royalties actually paid by an Overproduced Party attributable to the Underproduction of an Underproduced Party.

6.03 If any portion of the price which is to be paid to an Underproduced Party is subject to refund under order, rule or regulation of the FERC, then the Overproduced Party shall withhold the increment of price subject to refund until the price is fully approved, unless the Underproduced Party furnishes a corporate undertaking satisfactory to the Overproduced Party guaranteeing the return of the increment in price attributable to such refund, including interest, if any, which is required to be paid with such refund. In addition, if FERC or any other governmental agency having jurisdiction requires that an Overproduced Party make a refund with respect to any portion of a price used to make payment under this Article VI, then the Underproduced Party(ies) shall reimburse the Overproduced Party(ies) for such refund, including any interest required to be paid with respect thereto. This paragraph 6.03 shall survive the termination of this Agreement until the period has passed for which a refund may be required.

## ARTICLE VII Costs and Ownership of Liquids

All operating risks, expenses and liabilities shall be borne and paid by the Parties in accordance with the provisions of the Unit Operating Agreement, or other agreement, rule or order if there is not an Operating Agreement, regardless of whether the Gas is being taken or disposed of from the Unit at any given time in proportion to the Percentage Ownership of the Parties in the Unit. Liquid hydrocarbons of a Well separated from the Gas prior to delivery at the Measurement Point shall be owned by all Parties in accordance with their Percentage Ownership in the Unit, and each of the Parties shall be entitled to own and market their liquid hydrocarbons separated prior to the Measurement Point in accordance with its Percentage Ownership in the Unit, irrespective of the fact that one or more of the Parties may not be disposing of Gas from the Unit.

## ARTICLE VIII

### Indemnity

Each Party hereby indemnifies and agrees to hold the other Parties harmless from all claims which may be asserted by any third party arising out of the operation of this Agreement and the performance by the indemnifying Party of its obligation hereunder. Such indemnity shall extend to and include all costs of investigation and defense (including reasonable attorneys fees), and all judgments and damages incurred or sustained, as a result of any such claim.

## ARTICLE IX

### Payment of Lease Burdens

Unless otherwise required by provisions of a lease, agreement, or statute, rule, regulation, or order of any governmental authority having jurisdiction, and regardless of who is actually taking or disposing of Gas from the Unit, each Party shall be responsible for and shall pay or cause to be paid any and all royalties, overriding royalties, production payments and similar encumbrances on production due to its full Percentage Ownership of Gas production from the Unit and shall hold the other Parties free from any liability therefor. The Party or Parties actually taking and disposing of Gas from the Unit shall be responsible for and shall pay all production, severance or similar taxes, fees or levies on such production.

## ARTICLE X

### Notices

Any notices or other communications required or permitted hereunder shall be in writing and shall be deemed given only when received by the Party to whom the same is directed at the addresses and in the manner then provided under the Unit Operating Agreement.

**EXHIBIT "I"**

Attached to and made a part of  
The Corbin Delaware Unit Operating Agreement  
dated June 1, 1998

**MEMORANDUM OF UNIT OPERATING AGREEMENT**

Reference is here made to that certain Unit Operating Agreement dated June 1, 1998, wherein Burlington Resources Oil & Gas Company, whose address is P. O. Box 51810, Midland, Texas 79710-1810, is named Unit Operator and Working Interest Owner of the Corbin Delaware Unit and each of the undersigned is named as a Working Interest Owner, covering the Unit Area consisting of lands located in Lea County, New Mexico, as described by the attached Exhibit "A" attached hereto.

The terms and provisions of the referenced Unit Operating Agreement are incorporated in and made a part hereof. Article 11.6 of the referenced Unit Operating Agreement provides that each Working Interest Owner grants to the other Working Interest Owners a lien upon each party's oil and gas rights in the Unit Area and a security interest in each party's interest in oil and/or gas when produced, accounts, proceeds, contract rights, fixtures and personal property and equipment now or hereafter used to secure payment of each party's share of expenses, together with interest, for the development and operation of the Unit Area. Oil and/or gas or accounts will be financed at the wellhead located on the above described lands. This instrument shall be deemed a Financing Statement.

This instrument is intended to give notice to third parties of the respective rights of each of the parties hereto under the referenced Unit Operating Agreement and the rights of each party to undivided interests in the oil and gas rights in the Unit Area, notwithstanding the fact that the real estate records of the county where the lands described above are located show different rights than are reflected hereby.

A fully-executed copy of the above-described Unit Operating Agreement is available in the offices of the Unit Operator at the address shown above.

This instrument may be executed in multiple counterparts by each of the undersigned, and Unit Operator is hereby authorized to assemble such counterparts into one document.

DATED and effective as of the date of the above-described Unit Operating Agreement.

**Working Interest Owners**

**Working Interest Owner/Unit Operator**

CENTRAL RESOURCES, INC.

BURLINGTON RESOURCES  
OIL & GAS COMPANY

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

\_\_\_\_\_  
Dennis Sledge, Attorney-in-Fact

SANTA FE ENERGY RESOURCES, INC.

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

RKC, INC.

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

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND    §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by Dennis Sledge, Attorney-in-Fact of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, on behalf of said corporation.

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

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND    §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of SANTA FE ENERGY RESOURCES, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF COLORADO      §  
                                  §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of CENTRAL RESOURCES, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF CONNETICUT   §  
                                  §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of RKC, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

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

**RATIFICATION AND JOINDER  
OF AGREEMENTS ENTITLED  
UNIT AGREEMENT AND UNIT OPERATING AGREEMENT  
CORBIN DELAWARE UNIT AREA  
LEA COUNTY, NEW MEXICO**

KNOW ALL PERSONS BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of that certain agreement, dated June 1, 1998, entitled "Unit Agreement for the Development and Operation of the Corbin Delaware Unit, Lea County, New Mexico," which agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement, dated June 1, 1998, entitled "Unit Operating Agreement, Corbin Delaware Unit, Lea County, New Mexico," which agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A," "B" and "C," attached to and made a part of said Unit Agreement, identify the separately owned tracts which will become a part of the Unit; and

WHEREAS, each of the undersigned represents that it is a Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify, confirm and join said Unit Agreement and said Unit Operating Agreement.

NOW, THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest or interests or royalty interest or interests does hereby ratify, confirm and join said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto. This instrument shall be binding upon the undersigned, its successors and assigns.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth opposite its signature.

**SANTA FE ENERGY RESOURCES, INC.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**CENTRAL RESOURCES, INC.**

DATE: \_\_\_\_\_

\_\_\_\_\_  
Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**RKC, INC.**

DATE: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ALTURA ENERGY, LTD**

DATE: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

Leigh P. Wilber

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

Christine P. Carbaugh

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

Constance P. Claassen

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

Lynn P. Yedinak

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

Gene Day Costello

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

George Edward Day IV

STATE OF TEXAS           §  
  §  
COUNTY OF \_\_\_\_\_§

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of **SANTA FE ENERGY RESOURCES, INC.** a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF COLORADO   §  
  §  
COUNTY OF \_\_\_\_\_§

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of **CENTRAL RESOURCES, INC.**, a \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF CONNETICUT §  
§  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of **RKC, INC.** \_\_\_\_\_ corporation, on behalf of said corporation.

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

STATE OF TEXAS §  
§  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by \_\_\_\_\_ of **Altura Energy, Ltd.**

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

STATE OF ILLINOIS §  
§  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by **Leigh P. Wilber.**

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

STATE OF TEXAS §  
§  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by **Christine P. Carbaugh.**

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

STATE OF ILLINOIS §  
§  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by **Constance P. Claassen.**

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

STATE OF ILLINOIS       §  
  §  
COUNTY OF \_\_\_\_\_§

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by  
**Lynn P. Yedinak.**

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

STATE OF CALIFORNIA   §  
  §  
COUNTY OF \_\_\_\_\_§

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by  
**Gene Day Costello.**

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

STATE OF ILLINOIS       §  
  §  
COUNTY OF \_\_\_\_\_§

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 1998, by  
**George Edward Day IV.**

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