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May 9, 2000

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

#124117

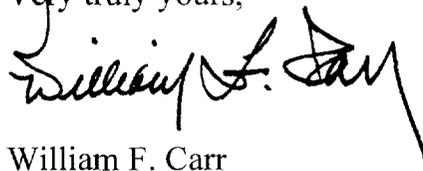
00 MAY -9 PM 1:51
OIL CONSERVATION DIV

Re: *Application of Saga Petroleum, L.L.C. for statutory unitization, Lea County,
New Mexico.*

Dear Ms. Wrotenbery:

Enclosed in triplicate is the application of Saga Petroleum, L.L.C. for statutory unitization of the Crossroads Siluro-Devonian Unit. A draft of the legal advertisements for this application is also enclosed. Saga Petroleum, L.L.C. requests that this applications be placed on the Division Examiner Hearing docket presently set for May 4, 2000.

Very truly yours,



William F. Carr

Enclosures

cc: Charles Farmer
Saga Petroleum, L.L.C.

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

**IN THE MATTER OF THE APPLICATION OF
SAGA PETROLEUM, L.L.C. FOR STATUTORY
UNITIZATION OF THE CROSSROADS SILURO-
DEVONIAN UNIT AREA, LEA COUNTY,
NEW MEXICO.**

CASE NO. 12417

OIL CONSERVATION DIV
COHAY - 9 PM 1:52

APPLICATION

SAGA PETROLEUM, L.L.C. ("Saga"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, NMSA, 1978 Comp.) hereby applies to the Oil Conservation Division for an order pursuant to the Statutory Unitization Act unitizing the Crossroads Siluro-Devonian Unit Area, Lea County, New Mexico, and in support of its application states:

1. Saga is a working interest owner and operates oil wells in the Crossroads Siluro-Devonian Pool.
2. Saga seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed Crossroads Siluro-Devonian Unit Area which consists of 800 acres, more or less, of fee lands located in Lea County, New Mexico, and is more particularly described as follows:

Township 9 South, Range 36 East, N.M.P.M.

Section 27:	N/2, SE/4
Section 34:	E/2

A map of the proposed Unit Area is attached to this application as Exhibit A.

3. The vertical limits of the formation to be included within the proposed Unit Area extends from depth of 11,948' and 12, 178' in the Sun Exploration and Production Co. U.D. Sawyer #11, located 2700' from the north line and 1610' from the east line of Section 27, Township 9 South, Range 36 East, Lea County, New Mexico.

4. The portions of the reservoirs involved in this application have been defined by development.

5. The type of operations to be conducted in this unit include secondary recovery by means of waterflooding.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which Saga considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Saga Petroleum L.L.C. further states:

- a. Unitized management, operating and further development of the portion of the Devonian formation, Crossroads Siluro-Devonian Pool which is the subject of this application is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the

pool.

- b. Unitized methods of operation applied to this portion of the Crossroads Siluro-Devonian Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
- c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
- d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.
- e. Saga Petroleum, L.L.C., as operator, has made a good faith effort to secure voluntary unitization within the portion of the Crossroads Siluro-Devonian Pool affected by this application.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

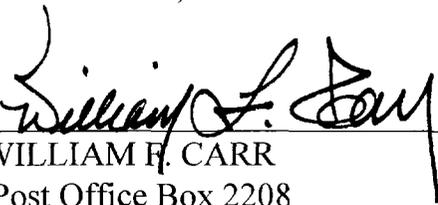
9. Statutory unitization of the Crossroads Siluro-Devonian Unit Area, Crossroads Siluro-Devonian Pool, is in the best interest of conservation, the prevention of waste and the

protection of correlative rights.

WHEREFORE, Saga Petroleum, L.L.C. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on May 4, 2000, and, after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the Crossroads Siluro-Devonian Unit Area, Lea County, New Mexico.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR SAGA PETROLEUM, L.L.C..

CASE ____: Application of Saga Petroleum, L.L.C. for statutory unitization, Lea County, New Mexico. Applicant in the above-styled cause, seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interest in the Devonian formation, Crossroads Siluro-Devonian Pool, underlying 800 acres, more or less, of fee lands in the following acreage:

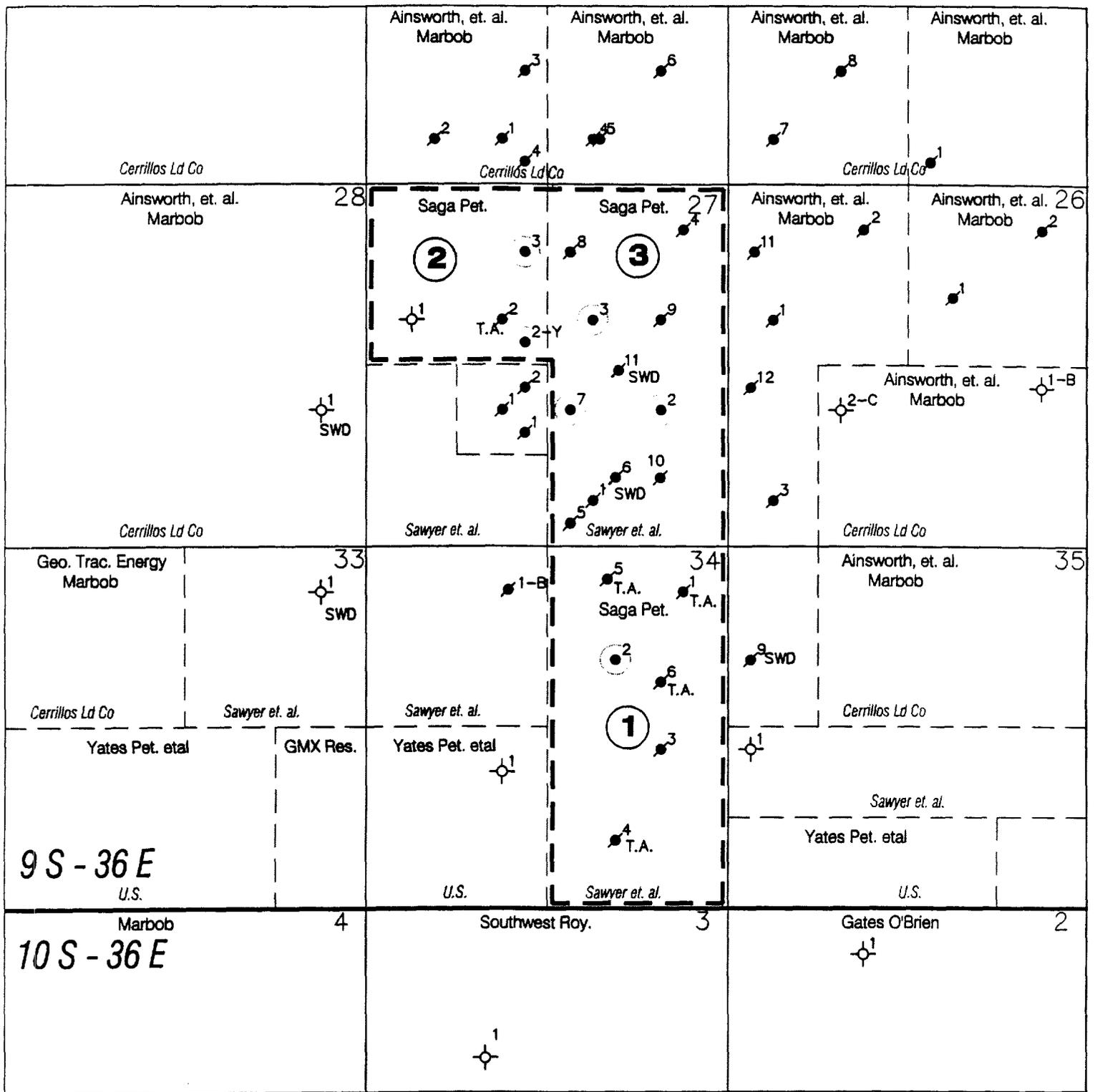
Township 9 South, Range 36 East, N.M.P.M.

Section 27: N/2, SE/4
Section 34: E/2

Said unit to be designated the Crossroads Siluro-Devonian Unit.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the designation of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any non-consenting working interest owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

Said unit area is located approximately 6 miles east of Crossroads, New Mexico.



- ┌─── Unit Outline
- ③ Tract Area
- Devonian Producer
- Abandoned Producer
- ⊕ Dry Hole



Saga Petroleum LLC	
Lea County, New Mexico Cross Roads Devonian Field	
Exhibit "A"	
Map of Unit Tracts	
March 1999	
Scale: 1"=2000'	

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CROSSROADS SILURO-DEVONIAN UNIT AREA
LEA COUNTY, NEW MEXICO

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CROSSROADS SILURO-DEVONIAN UNIT AREA

LEA COUNTY, NEW MEXICO

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EXHIBIT "A" MAP OF UNIT AREA

EXHIBIT "B" SCHEDULE OF TRACT PARTICIPATION

EXHIBIT "C" SCHEDULE OF OWNERSHIP

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

CROSSROADS SILURO-DEVONIAN UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the ___ day of _____, 2000 by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH THAT:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Crossroads Siluro-Devonian 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 interests in the below defined unit area, and agree severally among themselves as follows:

1. ENABLING REGULATIONS: 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 of New Mexico are hereby accepted and made a part of this agreement.

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

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as containing the Unit Area.
- (b) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (c) "Unitized Formation" is defined as the Siluro-Devonian formation as it occurs between the depths of 11,948' and 12,178' in the Sun Exploration & Production Co. U.D. Sawyer Well No. 11 located 2700' from the north line and 1610' from the east line of Section 27, Township 9 South, Range 36 East in Lea County, New Mexico.

- (d) "Unitized Substances" is defined as all oil, gas gaseous substances, sulphur contained in gas, condensate, distillate and associated and constituent liquid or liquefiable hydrocarbons within or produces from the Unitized Formation.
- (e) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the costs of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner hereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (f) "Royalty Interest" is defined as a right too or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.
- (g) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (h) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (i) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (j) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (k) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (l) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 7, Accounting Provisions and Unit Operating Agreement, infra, and Shall be styled "Unit Operating Agreement For the Operation and Development of the Crossroads Siluro-Devonian Unit Area, Lea County, New Mexico.

3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 800 acres, more or less, and contains the following described land located in Lea County, New Mexico:

Township 9 South, Range 36 East, N.M.P.M.

Section 27: E/2, SE/4

Section 34: E/2

Exhibit "A", to the extent known to the Unit Operator, shows the boundaries and identity of tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract.

However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area.

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

4. UNIT OPERATOR: Saga Petroleum, LLC, whose address is 415 W. Wall, Suite 835, Midland, TX 79701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in Unitized Substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 6 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the Working Interests Owners determined in like manner as herein provided for the selection of a new Unit Operator.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the a Working Interest Owner or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the Working Interest Owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve of discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performance by it prior to the effective date of such resignation or removal.

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator, provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes to succeed itself. If a majority but less than seventy-five percent (85%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (85%) of the total working interests, shall be required to select a new Unit Operator. Such selection shall

not become effective until a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator.

7. ACCOUNTING PROVISIONS: The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the Working Interest Owners in accordance with the Unit Operating Agreement entered into by an between the Unit Operator and the Working Interest Owners. No such agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement and in case of any inconsistencies or conflict between this Unit Agreement, and the Unit Operating Agreement, this Unit Agreement shall prevail.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this Unit Agreement, shall constitute, and define the rights, privileges and obligations of the 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.

9. PLAN OF OPERATIONS: It is recognized and agreed to by the parties hereto that all of the land subject to this Unit Agreement is reasonably proved to be productive of unitized substances and that the objection of this Unit Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recover 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, including the right to drill and maintain injection wells on the Unit Area and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purposes. Subject to like approval, the plan of operation may be revised as conditions warrant.

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 affective date of this Unit Agreement, or any extension thereof of approved by the Working Interest Owners, the Unit Agreement shall terminate automatically as of the date of default.

10. 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 lands as may be reasonably 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 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 unitized land that result from unit operations,

and such payments shall be considered as items of unit expense to be borne by all working interest owners of the lands subject hereto.

11. TRACT PARTICIPATION: The percentages of Tract Participation set forth on Exhibit "C" for each tract within the Unit area have been calculated and determined in accordance with the following formula:

Reserves	45%
Production	<u>55%</u>
	100%

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this Unit Agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof.

The Tract Participation for each tract as shown in Exhibit "C" are accepted and approved by the signatory parties hereto as being fair and equitable.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

12. TRACTS QUALIFIED FOR PRODUCTION: On and after the effective date hereof, all tracts within the Unit Area shall be entitled to participation in the production of unitized substances.

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

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Unit Agreement not been entered into, and with the same legal force and effect. No Tract committed to this Unit Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

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

parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owner and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 15 hereof any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be born by the party receiving the same in kind.

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

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

14. OIL IN LEASE TANKAGE ON EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on the tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

15. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto.

All rentals, if any, due under any leases embracing lands within the unit, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

15. EFFECTIVE DATE AND TERM: This Agreement shall become effective of 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 amendment is necessary) to conform to the Division's Order. Upon approval of this Agreement, as so amended, the Unit Operator shall file this Agreement, or notice thereof, for record in the office of the County Clerk of Lea County, New Mexico.

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.

This agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto.

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.

The terms, conditions and provision of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well

provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement.

16. 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 State laws or regulations.

17. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining Unitized Substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

18. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

19. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

20. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Oil Conservation Division, and to appeal from orders issued under the regulations of the Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

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

22. NO WAIVER OF CERTAIN RIGHTS: Nothing in this Unit 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 of New Mexico, or rules or regulations issued thereunder in any way affecting such party, or as a waiver by such party of any right beyond his or its authority to

waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

23. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the Unit Agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the Unit Area, and the interest of the parties readjusted as a result of such tract being eliminated from the Unit Area. In the event of a dispute as to the title to any Royalty Interest, Working Interest, or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the Unitized Substances involved on account thereof, without liability for interest until the dispute is finally settled.

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

25. STATUTORY UNITIZATION: If and when working interest owners owning at least seventy-five percent (75%) unit participation 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 (Sections 70-7-1 through 70-7-21, NMSA, 1978 Comp.). If such application is made and statutory unitization, the Agreement and/or Unit Operating Agreement shall automatically be revised and/or amended in accordance with the provisions of the Division's Order approving statutory unitization.

Any and all amendment 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 hereby approved in writing by the parties hereto without any necessity for further approval by said parties.

26. 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 Unit Area; 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 therefore by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to any lessor who has a contract with a lessee which requires his lessee to pay such tax.

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

28. CORRECTION OF ERRORS. It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement.

29. SUCCESSORS AND ASSIGNS: The terms and provisions hereof shall be covenants running with the lands and unitized leases and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

SAGA PETROLEUM CORPORATION

WORKING INTEREST OWNER

BY: _____

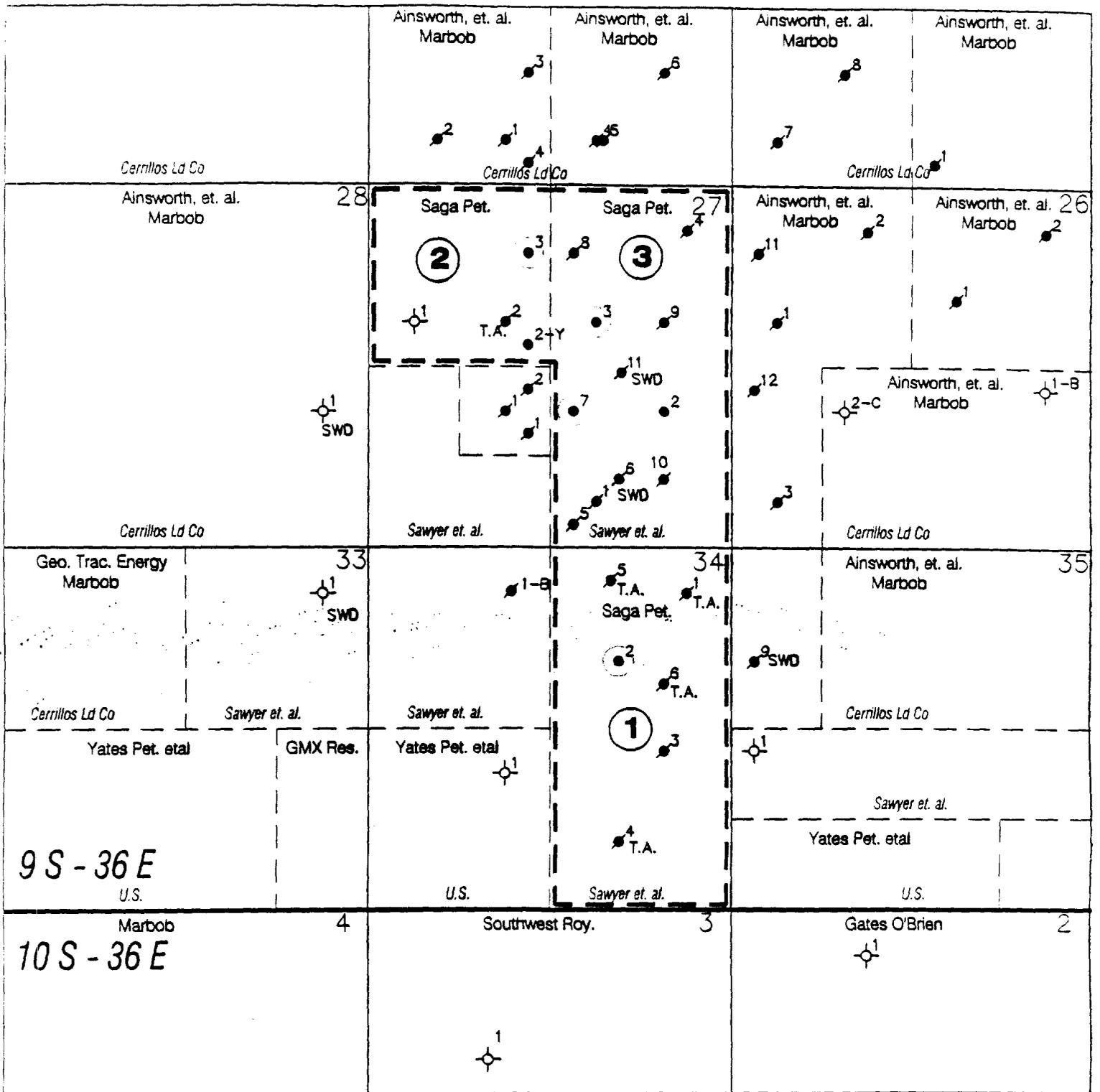
DATE: _____

TITLE: _____

ATTEST:

BY: _____

DATE: _____



- ┌─── Unit Outline
- ③ Tract Area
- Devonian Producer
- Abandoned Producer
- ⊕ Dry Hole



Saga Petroleum LLC	
Lea County, New Mexico Cross Roads Devonian Field	
Exhibit "A"	
Map of Unit Tracts	
March 1999	
Scale: 1"=2000'	

EXHIBIT B

Crossroads Siluro-Devonian Unit Unit Agreement Lea County, New Mexico

Tract #1 - Texaco Sawyer

Legal Description:

320 acres. More or less, comprising the E/2 Sec. 34, Township 9 South, Range 36 East

Royalty Ownership - Fee

Legal Description: E/2 Sec. 34, Township 9 South, Range 36 East

<u>Owner</u>	<u>Type</u>	<u>Tract R. I.</u>	<u>Tract W.I.</u>	<u>Tract Part.</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>
Sandra Good Ramey Trust	RI	0.01074200				
Price Y-CIA	RI	0.00244150				
Myrl Sawyer Good	RI	0.02506500				
Susie L. Wadley 1st. Tr.	RI	0.00203470				
Susie L. Wadley 1st. Tr.	RI	0.00203460				
Sinclair Trust	RI	0.00195310				
Fernald Point Prod. Tr.	RI	0.00195310				
Candace Good Jacobson	RI	0.03938800				
Thomas Jefferson Good	RI	0.03938800				
Total Royalty		0.12500000				
Sandra Good RA Mey Trust	OR	0.00512700				
Myrl Sawyer Good	OR	0.01196290				
Candace Good Jacobson	OR	0.01879880				
Thomas Jefferson Good	OR	0.01879880				
Total Override		0.05468750				
Saga Pet. LLC	WI	0.01640630	0.02000000	0.23653418	0.00388065	0.00473068
Forcenergy, Inc.	WI	0.61523430	0.75000000	0.23653418	0.14552394	0.17740064
Saga Pet. Corp.	WI	0.18867190	0.23000000	0.23653418	0.04462735	0.05440286
Tract R.I.		0.82031250		Unit R.I.	0.19403194	
Tract W.I.			1.00000000	Unit W.I.		0.23653418

EXHIBIT B
Crossroads Siluro-Devonian Unit
 Unit Agreement
 Lea County, New Mexico

Tract #2 - Santa Fe

Legal Description:

160 acres. More or less, comprising the NW/4 Sec. 27, Township 9 South, Range 36 East

Royalty Ownership - Fee

<u>Owner</u>	<u>Type</u>	<u>Tract R.I.</u>	<u>Tract W.I.</u>	<u>Tract Part</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>
Allan Capital Corp.	RI	0.00714280				
Floos, Inc.	RI	0.12500000				
H. Wayne Hoover	RI	0.00714280				
C. Thomas Houseman	RI	0.00357140				
Mystique Resources Co.	RI	0.00714280				
Edward J. Names	RI	0.00714280				
C.L. Nordstrom	RI	0.00714280				
Bruce M. Patterson	RI	0.00714280				
Total Royalty		0.17142820				
Floos, Inc.	OR	0.02557180				
Total Override		0.02557180				
Saga Pet. LLC	WI	0.01448500	0.01820000	0.20152072	0.00291903	0.00366768
Yellow Queen Uranium Co.	WI	0.02625000	0.03000000	0.20152072	0.00528992	0.00604562
Alfa Resources, Inc.	WI	0.05250000	0.06000000	0.20152072	0.01057984	0.01209124
Forcenergy, Inc.	WI	0.54318750	0.68250000	0.20152072	0.10946354	0.13753789
Saga Pet. Corp.	WI	0.16657750	0.20930000	0.20152072	0.03356882	0.04217829
Tract R.I.		0.80300000		Unit R.I.	0.16182114	
Tract W.I.			1.00000000	Unit W.I.		0.20152072

EXHIBIT B
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

Tract #3 - U.D. Sawyer

Legal Description:

320 acres. More or less, comprising the E/2 Sec. 27, Township 9 South, Range 36 East

Royalty Ownership - Fee

<u>Owner</u>	<u>Type</u>	<u>Tract R. I.</u>	<u>Tract W.I.</u>	<u>Tract Part.</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>	
Susie L. Wadley First Trust	RI	0.00203453					
Fernald Point Prod. Tr.	RI	0.00195310					
Susie Wadley Tr. #10-05527	RI	0.00203457					
Sinclair Rev. Tr. #0108952	RI	0.00195310					
William Marsh Rice Univ.	RI	0.05729170					
Candace G. Jacobson	RI	0.02208118					
Thomas J Good III	RI	0.02208106					
Price & Cia, Inc.	RI	0.00244140					
Myrl Sawyer Good	RI	0.00537109					
Beja Embry	RI	0.00537109					
Myrl Good Suc. Trustee	RI	0.00238720					
Total Royalty		0.12500000					
Floos, Inc.	OR	0.04218750					
Total Override		0.04218750					
Saga Pet. LLC	WI	0.01592884	0.01916880	0.56194510	0.00895113	0.01077181	
Gerald D. Mills	WI	0.00519533	0.00593750	0.56194510	0.00291949	0.00333655	
Yuma Explor & Prod.	WI	0.00246096	0.00281250	0.56194510	0.00138292	0.00158047	
Perry & Patricia Shaw Tr.	WI	0.00027344	0.00031250	0.56194510	0.00015366	0.00017561	
Forcenergy, Inc.	WI	0.59733405	0.71882810	0.56194510	0.33566894	0.40394193	
Saga Pet. Corp.	WI	0.18318248	0.22044060	0.56194510	0.10293850	0.12387552	
Saga Pet LLC FAO-TMN	WI	0.02789060	0.03187500	0.56194510	0.01567299	0.01791200	
Marius Jensen Nygaard, Jr.	WI	0.00054680	0.00062500	0.56194510	0.00030727	0.00035122	
Tract R.I.		0.83281250					
			Tract W.I.	1.00000000	Unit W.I.	0.56194510	
						All Tracts	1.00000000

Exhibit C
Schedule of Tract Participiaption
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

Tract	Description of Lands	Current Operator	Allocated W.I.
1	E/2 Sec. 34, T 9 S, R 36 E	Saga Petroleum, LLC	37.703000%
2	NW/4 Sec. 27, T 9 S, R 36 E	Saga Petroleum, LLC	51.411000%
3	E/2 Sec. 27, T 9 S, R 36 E	Saga Petroleum, LLC	10.886000%
			100.000000%

UNIT OPERATING AGREEMENT
CROSS ROADS (DEVONIAN) UNIT
LEA COUNTY, NEW MEXICO

EXHIBIT C

UNIT OPERATING AGREEMENT
 CROSS ROADS SILURO-DEVONIAN UNIT
 LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
CROSS ROADS (DEVONIAN) UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st. day of June, 1999, by and between the parties who execute or ratify this Agreement;

WITNESSETH: That,

WHEREAS, the parties hereto as Working Interest Owners have executed as of the date hereof, that certain Unit Agreement For the Development and Operation of the CROSS ROADS SILURO-DEVONIAN UNIT, Lea County, New Mexico (hereinafter referred to as "Unit Agreement"), and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners pertaining to the development and operation of the Unit Area 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 incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2
EXHIBITS

- 2.1 **Exhibits.** The following exhibits are incorporated herein by reference:
- 2.1.1 Exhibits A and B of the Unit Agreement.
 - 2.1.2 Exhibit C, attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner.
 - 2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Agreement and Exhibit D, this Agreement shall prevail.
 - 2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.
- 2.2 **Revision of Exhibits.** Whenever Exhibits A and B are revised, Exhibit C shall be revised according to such revision to be effective as of the effective date of revised Exhibits A and B.

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 the development and operation of the Unit Area pursuant to this Agreement and the Unit Agreement. In the exercise of such power 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 **Particular Powers and Duties.** The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to, the following:

- 3.2.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance or secondary recovery program to be employed.
- 3.2.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.
- 3.2.3 Well Workovers and Change of Status. The workover, recompletion, repair, abandonment, or change of status of any well in the Unit Area or use of any such well for injection or other purposes.
- 3.2.4 Expenditures. Making of any single expenditure in excess of Twenty Five Thousand and No/100 Dollars (\$25,000.00); provided that approval by Working Interest Owners of the drilling, 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. For all expenditures estimated to be in excess of Five Thousand and No/100 (\$5,000.00) Dollars, the Unit Operator will furnish copies of its AFE (Authorized Field Expenditure) to all Working Interest Owners for information purposes only.
- 3.2.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current net price of new equipment similar thereto being Twenty Five Thousand and No/100 (\$25,000.00) Dollars or more.
- 3.2.6 Appearance Before a Court or Regulatory Body. The designation of a representative to appear before any court or regulatory body in all matters pertaining to Unit operations; provided, however, such designation by Working Interest Owners shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf; and provided further, that in the absence of such designation Unit Operator shall appear as such representative.
- 3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:
- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator; and shall:
 - (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, unless such audit is conducted at the specific instance and request of Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including the Working Interest Owner designated as Unit Operator; and
 - (c) be upon not less than thirty (30) days' written notice to Unit Operator.
- 3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.
- 3.2.9 Technical Services. Any direct charges to the joint account for the services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.
- 3.2.10 Appointment of Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit operations.
- 3.2.11 Subject to Section 6.2, the removal of Unit Operator and the selection of a successor.
- 3.2.12 The enlargement of the Unit Area.
- 3.2.13 The readjustment of investments as required.
- 3.2.14 The termination of the Unit Agreement.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate representative authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate representative may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by

Unit Operator upon its own motion or at the request of one (1) or more Working Interest Owners. Except for emergency meetings which may be called on two (2) days' notice, no meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding on such amended items or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its then percentage in Unit participation, as shown in Exhibit C, and such revisions thereof as may hereafter be made in accordance with the terms of this Agreement.

4.3.2 Vote Required. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest owners shall act upon and determine all matters coming before them including but not limited to:

(a) an expenditure of more than Twenty Five Thousand and No/100 Dollars (\$25,000.00); or

(b) drilling of any wells and method of reconditioning for injection and/or producing wells

by the affirmative vote of a majority of the voting interest; provided, that should any one Working Interest Owner own more than forty percent (40%) voting interest, its vote must be supported by the vote of two (2) or more Working Interest Owners having a combined voting interest of at least fifteen percent (15%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall 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 decide any matter by vote taken by letter or telegram, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called as provided in Section 4.2, within seven (7) days after such proposal is served on Working Interest Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect the operation hereunder and all wells and 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 who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Saga Petroleum Corporation is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7 POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit operator shall have the exclusive right and duty to develop and operate the Unit Area for the production of Unitized Substances.

7.2 Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner, and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages unless such damages result from the gross negligence or willful misconduct of Unit Operator.

7.3 Liens and Encumbrances. Unit Operator shall keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

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

7.5 Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner monthly, injection and production reports for each well in the Unit, as well as periodic reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all necessary reports to governmental authorities.

7.8 Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the logs of, and copies of engineering and geological data pertaining to, wells drilled by Unit Operator.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Five Thousand and No/100 Dollars (\$25,000.00) without prior approval of Working Interest Owners; provided, however, that nothing in this Section (nor in Section 3.2.4) shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property.

7.10 Settlements. Unit Operator may settle any single damage claim not involving an expenditure in excess of Ten Thousand and No/100 Dollars (\$10,000.00), provided such payment is a complete settlement of such claim. All claims in excess of Ten Thousand and No/100 Dollars (\$10,000.00) must be approved by the Working Interest Owners.

7.11 Mathematical Errors. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement.

ARTICLE 8 TAKES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in 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; provided, that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9 INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operation subject to this Agreement:

9.1.1 Insurance as set forth in Exhibit E.

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of :

10.1.1 Wells and Casing. All wells completed in the Unitized Formation together with the casing therein;

10.1.2 Well and Lease Equipment. The tubing and rods in each such well, together with the wellhead connections thereon, and all other lease and operating equipment used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit operations; and

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall (at Unit expense) inventory and evaluate (i) all controllable material in accordance with provisions of Exhibit D and (ii) all personal property, except casing, so taken over under Section 10.1.2 above, and Working Interest owners shall appoint a committee for such purpose. Such inventory and evaluation shall, with the exception of sucker rods, be limited to items considered controllable, as recommended in the Material Classification Manual published by the Petroleum Accountants Society of Oklahoma in 1960. In this connection, Working Interest Owners agree to furnish such committee a list of their underground equipment prior to the effective date of this Agreement. The inventory as taken by the committee shall be as of the effective date of the Unit Agreement.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of such inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property, except casing, so taken over by Unit Operator under Section 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit participation, as shown on Exhibit C. 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 paid and in all other respects be treated as any

other 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. Pricing of inventory will be in accordance with Article III of Exhibit D hereof.

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

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

ARTICLE 11 DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit participation, shown on Exhibit C. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year, and on or before the first day of each October thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings that the estimated costs and expenses for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportion of such costs and expenses by submitting to Working Interest owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly. Where such estimates include materials to be acquired, Working Interest Owners may have the option of furnishing such material in kind, subject to acceptance of such material by Unit Operator.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need be segregated by Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon such Working Interest Owner's (i) leasehold and other mineral interests in each tract, (ii) its interest in all jointly-owned materials, equipment and other property, and (iii) its interest in all Unitized Substances, as security for payment of the costs and expenses chargeable to it, together with interest thereon at the rate of fifteen percent (15%) per annum. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such costs and expenses, with or without foreclosure of such lien. In addition, upon default by any Working Interest owner in the payment of costs and expenses chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers all proceeds of such Working Interest owner's share of Unitized Substances up to the amount owing by such Working Interest Owner plus interest, as aforesaid, until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default.

11.6 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be drilled on a competitive basis at the usual rates prevailing in the area. Unit Operator may employ its own tools and

equipment in the drilling of wells, but in such event, the charge therefor shall not exceed the prevailing rate in the area, and such work shall be performed by Unit Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors doing work of a similar nature.

11.7 Burden of Excess Royalty and Other Interests. If any interest contributed by a Working Interest Owner is burdened with a Royalty in excess of one-eighth (1/8), such excess burden shall be borne solely by the Working Interest Owner contributing such interest.

ARTICLE 12 OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. No Working Interest Owner, other than Unit Operator, shall produce Unitized Substances through any well drilled or operated by it. If any such other Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected. No dual completions in the Unitized Formation and some other formation shall be permitted.

ARTICLE 13 TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest set forth opposite its name in Exhibit B of the Unit Agreement and hereby indemnifies and agrees to hold the other Working Interest Owners harmless from any loss and liability for damages due to failure (in whole or in part) of its title to any such interest, except failure of title arising out of operations hereunder. Each failure of title shall 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 development and operating expenses, Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any tract by reason of Unit operations, including nonproduction from such tract, shall not operate to reduce or otherwise affect the percentage of Unit participation of the Working Interest Owner whose title has so failed.

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 contained herein shall ever be construed as creating a partnership of any kind, joint venture, or an association or trust between or among Working Interest owners.

14.2 Settlements. In the event claim is made against a Working Interest Owner, or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this Agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Unit Operator shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unit Area.

ARTICLE 15
INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each party hereto hereby irrevocably elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Unit Operator is hereby irrevocably authorized and directed to execute on behalf of each party hereto such additional or further evidence of said election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service and regulations issued under said Subchapter K, including all of the returns, statements and data required, and Unit Operator shall furnish each party hereto with a copy thereof. Should said regulations require each party to execute such further evidence, each party hereto irrevocably agrees to execute or join in the execution thereof. Each party hereto irrevocably agrees not to give any notices or take any action inconsistent with the elections hereby made and each hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16
NOTICES

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

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner desires to withdraw from the Unit it shall so notify the other Working Interest Owners, each of whom shall have the right and option for a period of thirty (30) days from receipt of such notice, to elect whether to participate in the acquisition of the entire present interest of the party desiring to withdraw. Failure of a notified owner to respond in writing to such notice shall constitute that owner's election not to participate in acquiring the said interest of the party seeking to withdraw, and if none of the notified parties elect to acquire, the proposed withdrawal shall not be accomplished. If within the thirty-day (30) option period one or more Working Interest owners elect in writing to participate in acquiring the particular interest (said parties being hereinafter called "acquiring owners") the withdrawing owner shall promptly transfer, assign and convey to the acquiring owners without warranty of title, either express or implied, all of the present right, title and interest of the withdrawing party in and to oil, gas and mineral leases or other operating rights in the Unit Area, insofar as said leases or rights pertain to the Unitized Formation, together with the withdrawing owner's interest in all wells, pipelines, casing, injection equipment, facilities and other personal property located upon or used in connection with the development and operation of the Unit Area. The interest so transferred, assigned and conveyed shall vest in the acquiring owners in the proportion which their respective Unit participations theretofore existing bear to their total Unit participation, and the Unit Operator shall recompute the percentages of participation to take into account said change of ownership and shall furnish all the Working Interest Owners with a corrected schedule of interests. Such a change of ownership shall not relieve the withdrawing owner from any obligation or liability incurred prior to the date of execution and delivery of the transfer, assignment and conveyance, but thereafter the withdrawing owner shall be relieved from all further obligations and liabilities under the Unit Agreement and this Agreement, and shall not be entitled to any benefits accruing hereunder and under the Unit Agreement. The only consideration to be paid by the acquiring owners for such a transfer, assignment and conveyance shall be the fair salvage value of the interest of the withdrawing owner in casing, equipment and other personal property as fixed by the acquiring owners in accordance with Exhibit D hereto.

ARTICLE 18
ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the former Working Interest Owner of the tract on which such well is located, together with the amount (as estimated and fixed by the Working Interest Owners) to be the net salvage value of the casing and equipment in and on said well; said former Working Interest Owner shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of its election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within ten (10) days after said former Working Interest Owner of the tract has so notified Unit Operator of its desire to take over such well, it shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount of the net salvage value above described. At the same time the former Working Interest Owner taking over the well shall agree, by letter addressed to Unit Operator, to effectively seal off and protect the Unitized Formation and (at such time as the well is ready for abandonment) to plug and abandon the well in a workmanlike manner in accordance with applicable laws and regulations.

18.2 Plugging. In the event the former Working Interest Owner of a tract does not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations.

ARTICLE 19
EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective on the date and at the time the Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20 hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners.

ARTICLE 20
TERMINATION OF UNIT AGREEMENT

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

20.1.1 Oil and Gas Rights. Possession of all oil and gas rights in and to the several separate tracts shall revert to the Working Interest Owners thereof.

20.1.2 Right to operate. Working Interest Owners of any such tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value of the casing and equipment in and on the well and by agreeing in writing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging Wells. With respect to all wells not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and shall cause such wells to be properly plugged and abandoned.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Unit participation, as shown on Exhibit C.

ARTICLE 21
COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

ARTICLE 22
SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

COMPANY NAME

WORKING INTEREST OWNER

BY: _____ DATE: _____

TITLE: _____

ATTEST:

BY _____ DATE: _____