

HOLLAND & HART ^{LLP}



William F. Carr
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February 12, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

**TO: ALL AFFECTED INTEREST OWNERS IN THE NORTH DAGGER DRAW-
UPPER PENNSYLVANIAN UNIT AREA.**

Re: Application of Yates Petroleum Corporation for statutory unitization, of the
North Dagger Draw-Upper Pennsylvanian Unit Area, Eddy County, New
Mexico.

Ladies and Gentlemen:

This letter is to advise you that Yates Petroleum Corporation has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order statutorily unitizing for the purpose of establishing a secondary recovery project, and at a later date a tertiary recovery project, all mineral interests from the top of the Canyon Carbonate formation to the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/ PEF and GR/ DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" # 1 well located 660 feet from the North line and 660 feet from the West line of Section 21, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, in the North Dagger Draw-Upper Pennsylvanian Pool, underlying 5612.95 acres, more or less, of Federal, State of New Mexico and Fee lands comprised of the following described acreage:

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

| | |
|-------------------------|--|
| Sections 16 and 17: | All |
| Section 18: | S/2, S/2 NE/4, SE/4 NW/4, NE/4 NE/4 |
| Sections 19 through 21: | All |
| Sections 28 through 30: | All |

A copy of the proposed Unit Agreement and Unit Operating Agreement have previously been provided to you by Yates Petroleum Corporation. Said unit is to be designated the North Dagger Draw-Upper Pennsylvanian Unit.

Among the matters to be considered at the hearing on this application will be the necessity of unit operations; the designation of a unit operator; the determination of the 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 investments in wells and equipment; a non-consent

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penalty for risk to be charged against carried working interest owners within the unit area upon such terms and conditions to be determined by the Division as just and reasonable; 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.

This application has been set for hearing before a Division Examiner on March 4, 2004, at the Oil Conservation Division Hearing Room in its Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, NM 87505. You are not required to attend this hearing but, as the owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging this matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement three days in advance of a scheduled hearing at the Division's Santa Fe Office. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

William F. Carr
Attorney for Yates Petroleum Corporation

Enclosure

cc: Mr. Randy Patterson
Yates Petroleum Corporation

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

**IN THE MATTER OF THE APPLICATION OF
YATES PETROLEUM CORPORATION FOR
STATUTORY UNITIZATION OF THE
NORTH DAGGER DRAW-UPPER
PENNSYLVANIAN UNIT AREA,
EDDY COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

YATES PETROLEUM CORPORATION ("Yates"), 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 unitizing the North Dagger Draw-Upper Pennsylvanian Unit Area, Eddy County, New Mexico, and in support of its application states:

1. Yates Petroleum Corporation is a New Mexico 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 natural gas.

2. Yates seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of a portion of the North Dagger Draw-Upper Pennsylvanian Pool which consists of 5612.95 acres, more or less, of State, Federal and Fee lands located in Eddy County, New Mexico, and is more particularly described as follows:

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

| | |
|-------------------------|--|
| Sections 16 and 17: | All |
| Section 18: | S/2, S/2 NE/4, SE/4 NW/4, NE/4 NE/4 |
| Sections 19 through 21: | All |
| Sections 28 through 30: | All |

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

3. The vertical limits of the unitized formation to be included within the proposed Unit Area extends from an upper limit describe as the top of the Canyon Carbonate formation at a depth of 7,680 feet, to a lower limit of the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/ PEF and GR/ DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" # 1 well located 660 feet from the North line and 660 feet from the West line of Section 21, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico.

4. The portions of the Upper Pennsylvanian reservoir involved in this application have been reasonably defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit area.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization that Yates 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. Yates further states:

- A. Unitized management, operating and further development of the portion of the Upper Pennsylvanian formation, North Dagger Draw-Upper Pennsylvanian Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and, at a later date, tertiary recovery operations, and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
- B. The proposed unitized methods of operations to be applied to this portion of the North Dagger Draw-Upper Pennsylvanian Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and/or gas from the pool, or unitized portions thereof, 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. Yates Petroleum Corporation, as operator, has made a good faith effort to secure voluntary unitization within the portion of the North Dagger Draw-Upper Pennsylvanian 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. Yates requests that any order issued in this case include each matter set forth in NMSA 1978, § 70-7-7 and that it specifically provide for carrying any working interest owner on a limited, carried net profits basis, payable out of production, and include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

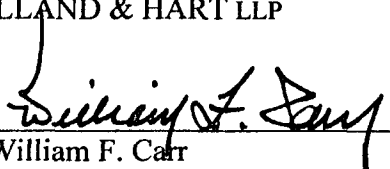
10. Statutory unitization of the North Dagger Draw-Upper Pennsylvanian Unit Area, North Dagger Draw-Upper Pennsylvanian Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Yates Petroleum Corporation respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on March 4, 2004, and, that 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 subject portions of the North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico.

Respectfully submitted,

HOLLAND & HART LLP

By:


William F. Carr

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR YATES PETROLEUM
CORPORATION

EXHIBIT "A"

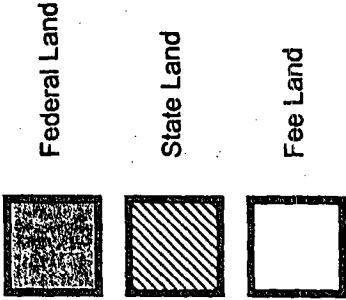
YATES PETROLEUM CORPORATION

NORTH DAGGER DRAW

UPPER PENN UNIT

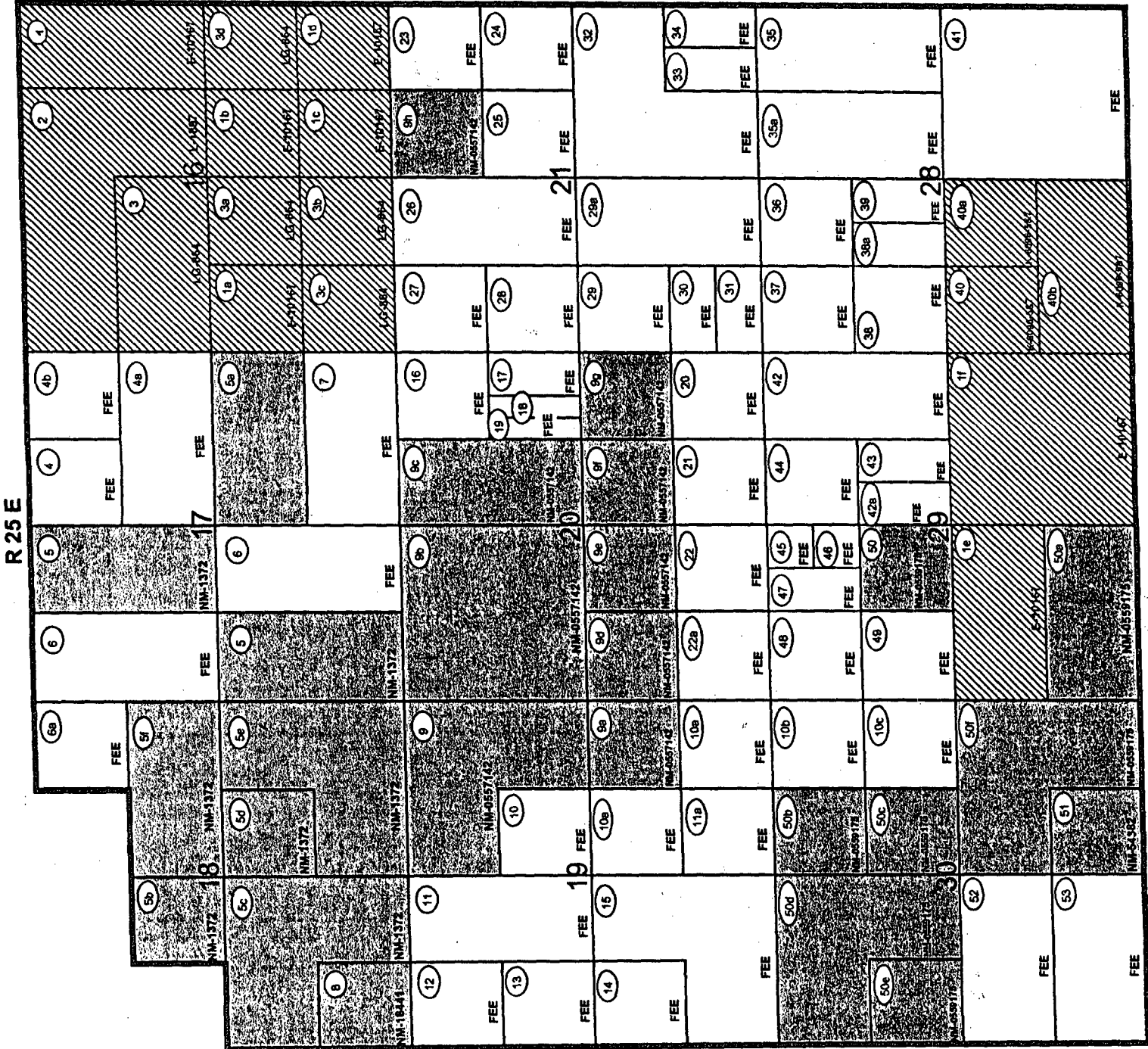
EDDY COUNTY, NEW MEXICO

T 1 9 S



All Leases are Held by Production

Scale: 2.5 inches = 1 mile



STATE/FEDERAL/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

NORTH DAGGER DRAW UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO

NO. _____

EXHIBIT B

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

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- (d) "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.
- (e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.
- (f) "Department" is defined as the Department of the Interior of the United States of America.
- (g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.
- (h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as the top of the Canyon Carbonate formation found at a depth of 7,680 feet, to a lower limit of the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/PEF and GR/DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" #1 well (located at 660 feet FNL and 660 feet FWL of Section 21, T-19-S, R-25-E, Eddy County, New Mexico).
- (i) "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.
- (j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this agreement.
- (l) "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.
- (m) "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.
- (n) "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.
- (o) "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.
- (p) "Royalty Owner" is the owner of a Royalty Interest.
- (q) "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, North Dagger Draw Upper Penn Unit, Eddy County, New Mexico".
- (r) "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.
- (s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.
- (t) "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.
- (u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.
- (v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.
- (w) "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.

(x) "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.

(y) "Effective Date" is the date determined in accordance with Section 24, or as re-determined 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. Copies of such revision shall be filed with the Land Commissioner, and 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.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O., Land Commissioner, and the Working Interest Owner of the tract of land to be included, 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. No expansion of the Unit shall be permitted unless the owner of the tract to be included makes application and is in support of an amendment to the Unit Agreement providing for the inclusion of such additional tract, and,

(b) Unit Operator shall circulate such application requesting 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 three 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., Land Commissioner and the Working Interest Owner of the tract of land to be included into the Unit, 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 Land Commissioner, 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 Land Commissioner and A.O. and the Working Interest Owner of the tract of land to be included into the Unit, 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 Land Commissioner and 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. Yates Petroleum Corporation 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, the Land Commissioner 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 Land Commissioner and 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or 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 Land Commissioner and 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., the Land Commissioner 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., the Land Commissioner 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., the Land Commissioner 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. and Commissioner, 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, 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 formula:

$$\text{Tract Participation} = 70\% A + 30\% B$$

A = the Area Ratio based on the ratio of an Owners net acreage divided by the total acreage within the Unit Area.

B = the Reserves Ratio based on the ratio of the total Remaining Primary Barrels of Oil Equivalent as of January 1, 2003 for wells within the Tract as shown in Exhibit "D", divided by the total Remaining Primary Barrels of Oil Equivalent as of January 1, 2003 for wells within the Unit Area. Here Barrels of Oil Equivalent (BOE) is calculated as gas volume in Mcf divided by 6 plus oil volume in STBO. (BOE = STBO + MCF/6)

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 non-subscribing 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 Land Commissioner and 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 Land Commissioner and 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 Land Commissioner and 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. and Land Commissioner) 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 (Non-joinder 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 Land Commissioner and 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 Land Commissioner and 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 Land Commissioner and 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, the A.O. and the Land Commissioner, 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. or Land Commissioner (as the case may be) 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 and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each 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 Land Commissioner and the A.O., or their duly authorized representatives, 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 non-unitized 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., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before _____, 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 _____ Eddy 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 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 Land Commissioner and 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 _____ Eddy 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 Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, 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 Land Commissioner, 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. NONJOINDER AND SUBSEQUENT JOINDER. 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 Land Commissioner and 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 eighty percent (80%) of the Unit Participation then in effect, and approved by the Land Commissioner and 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 Land Commissioner and 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 Land Commissioner or 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 Land Commissioner; and 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 Eddy 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 Eddy 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.

YATES PETROLEUM CORPORATION

By: Randy G. Patterson

Attorney-in-Fact

Date of Execution:

10/24/2003

STATE OF NEW MEXICO)

)ss.

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 24th day of October, 2003, by Randy G. Patterson, Attorney-in-Fact for Yates Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

3-1-06

Dorian S. Hurlow
Notary Public



R 25 E

T 1 9 S

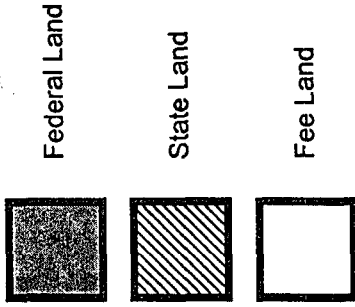
EXHIBIT "A"

YATES PETROLEUM CORPORATION

NORTH DAGGER DRAW

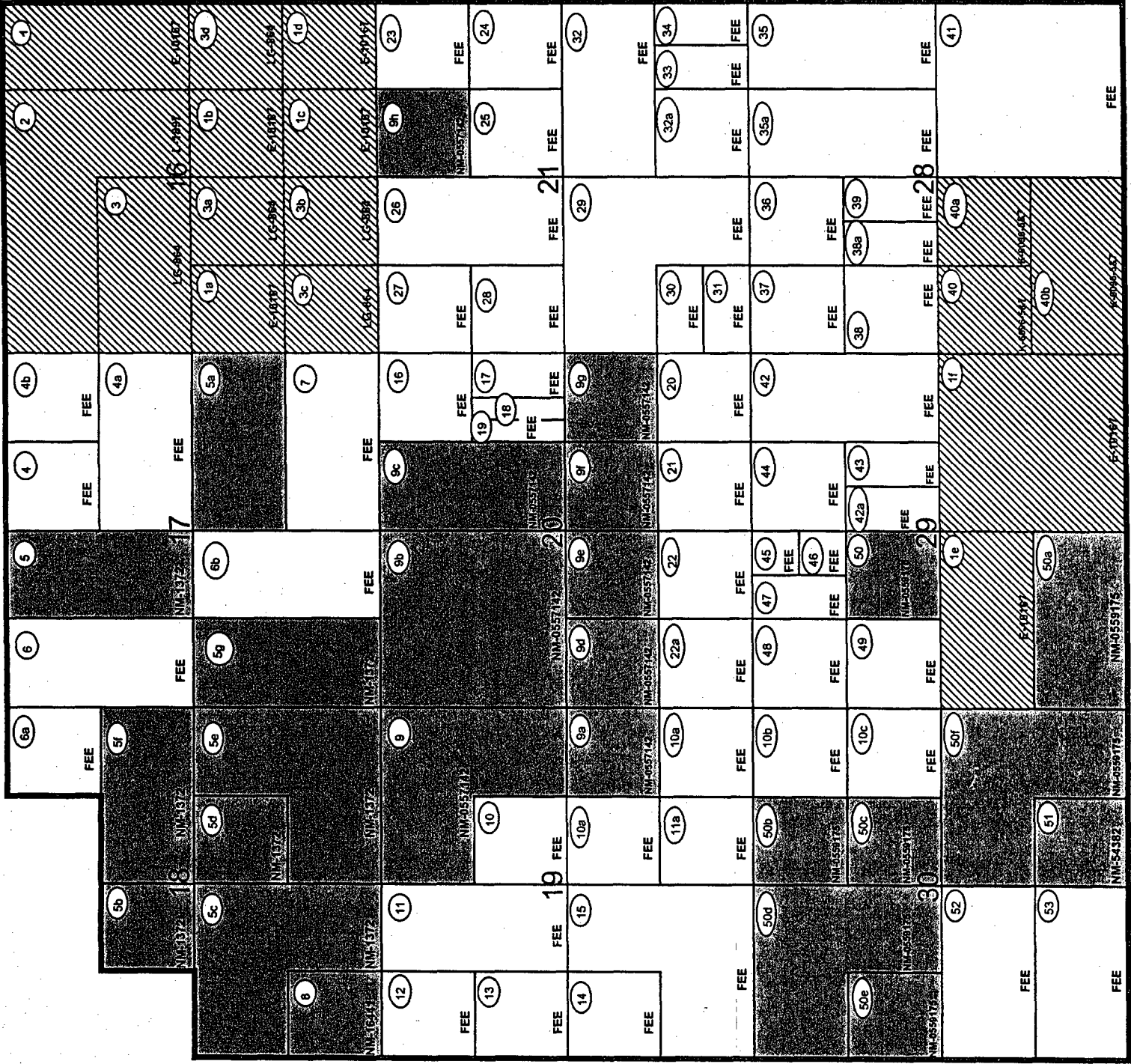
UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO



All Leases are Held by Production

Scale: 2.5 inches = 1 mile



NORTH DAGGER DRAW UPPER PENN UNIT

| | | | | | | | | |
|----|--------|---------|-----|--------|---------|-----|--------|---------|
| 1 | 80.00 | State | 9f | 40.00 | Federal | 35a | 80.00 | Fee |
| 1a | 40.00 | State | 9g | 40.00 | Federal | 36 | 40.00 | Fee |
| 1b | 40.00 | State | 9h | 40.00 | Federal | 37 | 40.00 | Fee |
| 1c | 40.00 | State | 10 | 40.00 | Fee | 38 | 40.00 | Fee |
| 1d | 40.00 | State | 10a | 80.00 | Fee | 38a | 20.00 | Fee |
| 1e | 80.00 | State | 10b | 40.00 | Fee | 39 | 20.00 | Fee |
| 1f | 160.00 | State | 10c | 40.00 | Fee | 40 | 40.00 | State |
| 2 | 160.00 | State | 11 | 80.00 | Fee | 40a | 40.00 | State |
| 3 | 80.00 | State | 11a | 40.00 | Fee | 40b | 80.00 | State |
| 3a | 40.00 | State | 12 | 41.21 | Fee | 41 | 160.00 | Fee |
| 3b | 40.00 | State | 13 | 41.24 | Fee | 42 | 80.00 | Fee |
| 3c | 40.00 | State | 14 | 41.27 | Fee | 42a | 20.00 | Fee |
| 3d | 40.00 | State | 15 | 121.30 | Fee | 43 | 20.00 | Fee |
| 4 | 40.00 | Fee | 16 | 40.00 | Fee | 44 | 40.00 | Fee |
| 4a | 80.00 | Fee | 17 | 20.00 | Fee | 45 | 10.00 | Fee |
| 4b | 40.00 | Fee | 18 | 10.00 | Fee | 46 | 10.00 | Fee |
| 5 | 80.00 | Federal | 19 | 10.00 | Fee | 47 | 20.00 | Fee |
| 5a | 80.00 | Federal | 20 | 40.00 | Fee | 48 | 40.00 | Fee |
| 5b | 40.00 | Federal | 21 | 40.00 | Fee | 49 | 40.00 | Fee |
| 5c | 121.27 | Federal | 22 | 40.00 | Fee | 50 | 40.00 | Federal |
| 5d | 40.00 | Federal | 22a | 40.00 | Fee | 50a | 80.00 | Federal |
| 5e | 120.00 | Federal | 23 | 40.00 | Fee | 50b | 40.00 | Federal |
| 5f | 80.00 | Federal | 24 | 40.00 | Fee | 50c | 40.00 | Federal |
| 5g | 80.00 | Federal | 25 | 40.00 | Fee | 50d | 121.33 | Federal |
| 6 | 80.00 | Fee | 26 | 80.00 | Fee | 50e | 41.35 | Federal |
| 6a | 40.00 | Fee | 27 | 40.00 | Fee | 50f | 120.00 | Federal |
| 6b | 80.00 | Fee | 28 | 40.00 | Fee | 51 | 40.00 | Federal |
| 7 | 80.00 | Fee | 29 | 120.00 | Fee | 52 | 81.37 | Fee |
| 8 | 41.22 | Federal | 30 | 20.00 | Fee | 53 | 81.39 | Fee |
| 9 | 120.00 | Federal | 31 | 20.00 | Fee | | | |
| 9a | 40.00 | Federal | 32 | 80.00 | Fee | | | |
| 9b | 160.00 | Federal | 32a | 40.00 | Fee | | | |
| 9c | 80.00 | Federal | 33 | 20.00 | Fee | | | |
| 9d | 40.00 | Federal | 34 | 20.00 | Fee | | | |
| 9e | 40.00 | Federal | 35 | 80.00 | Fee | | | |

| Lease | Acres | Percent |
|---------|---------|---------|
| Federal | 1805.17 | 32.16% |
| State | 1040.00 | 18.53% |
| Fee | 2767.78 | 49.31% |
| Total | 5612.95 | 100.00% |

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
SCHEDULE SHOWING ALL LANDS AND LEASES WITHIN THE NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

SUSAN VIERRA
2/9/04

| TR # | TRACT ACRES | DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|---------|----------------|--|------------|---|------------------------------------|--|--|---|--|
| 1 | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: E2NE1/4 | 80.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | YATES PETROLEUM CORPORATION | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 1a | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: NW1/4SW1/4 | 40.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. ELSIE G. HOLDEN, TESTAMENTARY GENDRON, J. W. HODGE, JOSEPH R. HODGE, SANFORD J. III KAWASAKI, DR. ISAAC A. KELLER, BETSY H. MOORE, CHARLES CLINE NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST SCHUMAN, ADOLPH P. SPACE BUILDING CORPORATION UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES PETROLEUM CORPORATION | 0.099103 0.099103 0.099103 0.048551 0.148554 0.099103 0.016517 0.016517 0.099103 0.048551 0.247757 4.166897 0.099103 0.247757 34.832586 0.099103 59.431615 |
| 1b | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: NW1/4SE1/4 | 40.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. ELSIE G. HOLDEN, TESTAMENTARY HODGE, SANFORD J. III KELLER, BETSY H. NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES PETROLEUM CORPORATION | 0.033140 0.033140 0.016570 0.005324 0.016570 37.620133 0.033140 24.522231 0.033140 37.653272 |
| 1c | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: SW1/4SE1/4 | 40.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST SPACE BUILDING CORPORATION UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES PETROLEUM CORPORATION | 0.033034 0.033034 37.500000 0.033034 0.082586 24.443824 0.033034 37.808320 |
| 1d | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: SE1/4SE1/4 | 40.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. HODGE, SANFORD J. III NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST SPACE BUILDING CORPORATION UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES PETROLEUM CORPORATION | 0.033123 0.033123 0.095521 37.801442 0.033123 0.062869 24.510048 0.033123 37.694565 |
| 1e | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 26: N2SW1/4 | 80.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | NEARBURG EXPLORATION COMPANY YATES PETROLEUM CORPORATION | 25.000000 OPERATING AGREEMENT BOYD X STATE COM #2 SECTION 26: SW1/4 402-104-E |
| 1f | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 26: SE1/4 | 160.000000 | E-10167, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | NEARBURG EXPLORATION COMPANY YATES PETROLEUM CORPORATION | 50.000000 OPERATING AGREEMENT BOYD X ST 3 SECTION 26: SE1/4 402-104-L 1-15-1983 |
| 2 | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: W1/2NE1/4, N2NW1/4 | 160.000000 | L-1897, COQUINA OIL ETAL NM-402-104-A STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | YATES PETROLEUM CORPORATION | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 3 | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: S1/2NW1/4 | 80.000000 | LG-884, COQUINA OIL ETAL NM-402-104-B STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NONE | YATES PETROLEUM CORPORATION | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 3a | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1PM SECTION 16: NE1/4SW1/4 | 40.000000 | LG-884, COQUINA OIL ETAL NM-402-104-B STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 COMMISSIONER OF PUBLIC LANDS | 12.500000 NORMAN, ELIZABETH J., TRUSTEE | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. | 0.099103 0.099103 0.099103 |

| TR # | TRACT ACRES | DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | |
|------|-------------|--|--|---|---|--|--|---|---|--|
| 5 | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 17: E2NW1/4, SECTION 17: E2NW1/4, | 1.250000 NM-403-ST FEE - HBP 5.000000 | QUETICO SUPERIOR FOUNDATION / CONOCO MARSHALL & WINSTON, INC. / CONOCO | YATES PETROLEUM CORPORATION SOUTHWEST ROYALTIES, INC. | 100.000000 100.000000 | 0.878810 0.260410 0.073240 1.840830 0.565940 0.878810 0.107420 0.058590 0.073240 0.565940 0.036620 0.097960 0.214840 0.104170 0.107420 0.195300 0.073240 0.781250 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041700 1.041600 2.063300 93.750000 1.041700 4-1-1963 | |
| 5a | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 17: N2SE1/4 | 80.000000 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.330000 8.335000 8.330000 16.670000 8.335000 50.000000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMBE, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781260 0.425780 0.141920 0.141920 0.743450 1.562500 0.141920 3.125000 3.125000 0.703110 3.902340 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041700 1.041600 2.063300 93.750000 1.041700 |
| 5b | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 18: SE4NW1/4 | 40.000000 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.330000 8.335000 8.330000 16.670000 8.335000 50.000000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMBE, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781260 0.425780 0.141920 0.141920 0.743450 1.562500 0.141920 3.125000 3.125000 0.703110 3.902340 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041600 2.063300 93.750000 1.041700 1-18-1971 |
| 5c | 121.27 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 18: LOT 3 (NW1/4SW1/4), E2SW1/4 | 121.270000 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.330000 8.335000 8.330000 16.670000 8.335000 50.000000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMBE, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781260 0.425780 0.141920 0.141920 0.743450 1.562500 0.141920 3.125000 3.125000 0.703110 3.902340 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 100.000000 100.000000 |
| 5d | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 18: NW1/4SE1/4 | 40.000000 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.330000 8.335000 8.330000 16.670000 8.335000 50.000000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMBE, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781260 0.425780 0.141920 0.141920 0.743450 1.562500 0.141920 3.125000 3.125000 0.703110 3.902340 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 8.333333 8.333334 8.333333 16.666666 50.000000 8.333334 |
| 5e | 120.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 18: NE1/4SE1/4, S2SE1/4 | 120.000000 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.330000 8.335000 8.330000 16.670000 8.335000 50.000000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMBE, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781260 0.425780 0.141920 0.141920 0.743450 1.562500 0.141920 3.125000 3.125000 0.703110 3.902340 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWIO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 100.000000 100.000000 |

| TR # | TRACT ACRES OF LANDS | SERIAL NUMBER AND EXPIRATION DATE | ACRES | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | |
|------|--|---|------------|--|--|---|--|--|---|
| 7 | 80.00 TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 17: S2SE4 | ROY E. GLASS, ETUX N4-403-5-B FEE - HBP | 20.000000 | YATES PETROLEUM CORPORATION YATES DRILLING COMPANY SHARRO OIL LIMITED COMPANY ESTATE OF LILLIE M. YATES YATES, JOHN A. | 75.000000 8.333333 4.166667 4.166667 4.166667 75.000000 8.333333 4.166667 4.166667 4.166667 100.000000 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. CURRY, FLORENCE M. ESSIANY DAWSON, NEVA CHAMBERS ESSMAN, JAMES H. FREEMAN, ALICE ANN THOMAS HUNTINGTON ENERGY, LLC LIPSCOMB, CELESTE CHAMBERS OSCURA RESOURCES, INC. PROBANT, W. T. ROBERTS, MIKE H. | 0.425760 0.141930 0.893760 0.141930 0.893760 0.257350 0.091260 0.141930 0.002300 0.916750 0.069750 | ESTATE OF LILLIE M. YATES SHARRO OIL LIMITED COMPANY TRUST Q. UW/O PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041700 1.041600 2.083300 93.750000 1.041700 |
| 8 | 41.22 TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 18: LOT 4 (SW/4SW/4) | N4-16441, CONOCO, INC. N4-401-3484 FEDERAL - HBP | 41.220000 | YATES PETROLEUM CORPORATION | 100.000000 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS HUNTINGTON ENERGY, LLC LIPSCOMB, CELESTE CHAMBERS OSCURA RESOURCES, INC. ROBERTS, MIKE H. | 0.528125 0.176042 0.176042 0.500000 0.176042 1.000000 1.500000 | YATES PETROLEUM CORPORATION | 100.000000 |
| 9 | 120.00 TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 18: N2NE4, SE4NE4 | N4-0537142, OCOTILLO PETROLEUM N4-401-202 FEDERAL - HBP | 120.000000 | YATES PETROLEUM CORPORATION | 100.000000 | JUDSON PROPERTIES, LTD. KOOHERGEN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416670 2.500000 2.500000 2.500000 0.416670 | YATES PETROLEUM CORPORATION | 100.000000 |
| 9a | 40.00 TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 18: NE4SE4 | N4-0537142, OCOTILLO PETROLEUM N4-401-202 FEDERAL - HBP | 40.000000 | YATES PETROLEUM CORPORATION | 100.000000 | CONE, TOM R. JUDSON PROPERTIES, LTD. KOOHERGEN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.069633 0.416670 2.500000 0.416670 2.500000 0.416670 | AUVENSHINE CHILDRENS CONE, KATHLEEN TRUST, DECD (BOO) CONE, KATHLEEN TRUST, DECD (KGC) CONE, KENNETH G. CONE, RANDY LEE EXPLORERS PETROLEUM CORP. HANSON-MCBRIDE PETROLEUM CO. HARVEY E. YATES COMPANY JALAPENO CORPORATION MCCOWN, CATHIE CONE OZARK EXPLORATION, INC. SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES ENERGY CORPORATION | 0.840000 0.560000 0.840000 0.837500 0.280000 0.468750 1.050000 3.251800 0.665366 0.837500 12.500000 7.306250 1.525000 1.395294 |

| TR | TRACT ACRES | DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|----|----------------|---|------------|--|------------------------------------|--|--|--|---|
| 9b | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4PM SECTION 20: NW/4 | 160.000000 | NM-0557142, OCOTILLO PETROLEUM NMA-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 MINERALS MANAGEMENT SERVICE | 12.500000 JUDSON PROPERTIES, LTD KOCHEGREN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416670 2.500000 0.416670 2.500000 0.416660 0.416660 YATES PETROLEUM CORPORATION | 67.842500 100.000000 YATES PETROLEUM CORPORATION |
| 9c | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4PM SECTION 20: W1/2NE/4 | 80.000000 | NM-0557142, OCOTILLO PETROLEUM NMA-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 MINERALS MANAGEMENT SERVICE | 12.500000 JUDSON PROPERTIES, LTD KOCHEGREN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416670 2.500000 0.416666 2.500000 0.416660 0.416660 ABO PETROLEUM CORPORATION HOLLYHOCK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARLURG EXPLORATION COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES PETROLEUM CORPORATION | 0.625000 2.063340 2.063330 3.125000 7.500000 6.250000 6.250000 6.250000 89.375000 OPERATING AGREEMENT ROSS EG FED COM #10 SECTION 18: NE/4 401-202-P 8-1-1982 |
| 9d | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4PM SECTION 20: NW/4SW/4 | 40.000000 | NM-0557142, OCOTILLO PETROLEUM NMA-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 MINERALS MANAGEMENT SERVICE | 12.500000 JUDSON PROPERTIES, LTD KOCHEGREN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416660 2.500000 0.416660 2.500000 0.416660 0.416660 YATES PETROLEUM CORPORATION BELLO, ERNIE BUNN, FRANCES B. BUNN, ROBERT B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY ROGERS DETEMPLE, MELANIE COLL GOODNOW, DAVID MARSHALL & WINSTON, INC. MYCO INDUSTRIES, INC. OLIVER, WILLIAM B. TRUST PANHANDLE ROYALTY COMPANY TRUST Q UWJO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 3.821470 0.004130 0.004130 0.064860 1.172460 0.527620 0.527620 1.172460 0.083710 0.703500 0.016770 0.468890 0.016770 0.004130 3.126970 7.642940 9.376970 1.910740 7.642940 59.783200 1.910740 OPERATING AGREEMENT SECTION 20: S/2 401-202-A 4-16-1975 |
| 9e | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4PM SECTION 20: NE/4SW/4 | 40.000000 | NM-0557142, OCOTILLO PETROLEUM NMA-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 MINERALS MANAGEMENT SERVICE | 12.500000 JUDSON PROPERTIES, LTD KOCHEGREN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416660 2.500000 0.416660 2.500000 0.416660 0.416660 YATES PETROLEUM CORPORATION BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. BUNN, ROBERT B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY ROGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES MARSHALL & WINSTON, INC. PANHANDLE ROYALTY COMPANY SHARRO OIL LIMITED COMPANY TRUST Q UWJO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 3.819445 1.171875 0.527343 0.527343 1.171875 0.063971 0.703125 0.016760 0.468750 0.016760 3.819445 3.125000 9.375000 3.819445 1.909722 7.638889 59.895330 1.909722 OPERATING AGREEMENT SECTION 20: S/2 401-202-A 4-16-1975 |
| 9f | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4PM SECTION 20: NW/4SE/4 | 40.000000 | NM-0557142, OCOTILLO PETROLEUM NMA-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 MINERALS MANAGEMENT SERVICE | 12.500000 JUDSON PROPERTIES, LTD KOCHEGREN ENTERPRISES FAMILY LAJ CORPORATION LAUCK, STEPHEN E. MARTIN LIVING TRUST | 0.416660 2.500000 0.416660 2.500000 0.416660 0.416660 YATES PETROLEUM CORPORATION BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. BUNN, ROBERT B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY ROGERS DETEMPLE, MELANIE COLL ELFIE G. HOLDEN, TESTAMENTARY ESTATE OF LILLIE M. YATES GENDRON, J. W. GOODNOW, DAVID HODGE, JOSEPH R. HODGE, SANFORD J. III KAWASAKI, DR. ISAAC A. KELLER, BETSY H. MOORE, CHARLES CLINE MYCO INDUSTRIES, INC. OLIVER, WILLIAM B. TRUST PANHANDLE ROYALTY COMPANY SCHUMAN, ADOLPH P. | 3.298811 0.004130 0.004129 0.004129 0.065122 1.171875 0.527343 0.527343 1.171875 0.063971 0.703125 0.016759 0.468750 0.016759 0.020085 1.319445 0.006194 0.004129 0.003888 0.004129 0.002385 0.010323 3.966333 0.004129 9.375000 0.004129 OPERATING AGREEMENT SECTION 20: S/2 401-202-A 4-16-1975 |

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| TRACT # | TRACT DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | |
|---------|---|--------|--|--|---|--|---|---|--|
| 15 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 18: LOT 4 (SW1/4SW1/4), E2SW1/4 | 121.30 | JOHNSON PROPERTIES / CONOCO NM-403-1983 FEE - HBP LAURA B. LODEWICK, ETAL / CONOCO NM-403-1983-A FEE - HBP UNLEASED MINERALS 30.320000 UNLEASED MINERALS 30.320000 | YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION SPIRAL, INC. SACRAMENTO PARTNERS LIMITED | 100.000000 100.000000 100.000000 100.000000 | NONE | SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES ENERGY CORPORATION YATES PETROLEUM CORPORATION | 19.011470 1.425860 4.244060 50.500816 | |
| 16 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 20: NE4NE4 | 40.00 | PATRICIA JOHNSON COOPER NM-403-1781 FEE - HBP S. P. JOHNSON, III, ETAL TRUST NM-403-1781-A FEE - HBP UNLEASED MINERALS 10.000000 SPIRAL ENERGY, INC. 10.000000 UNLEASED MINERALS 1.666667 UNLEASED MINERALS 1.666667 UNLEASED MINERALS 3.333333 UNLEASED MINERALS 3.333333 UNLEASED MINERALS 2.000000 | YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION SACRAMENTO PARTNERS LIMITED HOLLYHOOK, LTD HOLLYHOOK, LTD HOLLYHOOK, LTD JOHN W. LODEWICK PATRICIA LODEWICK YATES PETROLEUM CORPORATION | 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 | NONE | ABO PETROLEUM CORPORATION HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 0.625000 2.083340 2.083330 2.083330 3.125000 7.500000 6.250000 0.625000 69.375000 | |
| 17 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 20: E2SE4NE4 | 20.00 | STANLEY L. JONES ESTATE / MARATHON NM-403-1780 FEE - HBP JONELL JONES GILMORE / MARATHON NM-403-1780-A FEE - HBP MARTIN VATES, III, ESTATE NM-403-19 FEE - HBP UNLEASED MINERALS 2.000000 NEARBURG EXPLORATION COMPANY 2.000000 CAROL SUE GILMORE 2.000000 CAROL SUE GILMORE 4.000000 ESSIE G. & BILLY G. NIX 10.000000 RALPH NIX, JR. | YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY NEARBURG EXPLORATION COMPANY NEARBURG EXPLORATION COMPANY YATES DRILLING COMPANY ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. | 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 10.000000 | MARATHON OIL COMPANY | 0.833000 | ABO PETROLEUM CORPORATION HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 0.625000 2.083340 2.083330 2.083330 3.125000 7.500000 6.250000 0.625000 69.375000 |
| 18 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 20: E2W1/2SE4NE4 | 10.00 | ELLA M. JONES NM-403-1731 FEE - HBP | YATES PETROLEUM CORPORATION YATES DRILLING COMPANY ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. | 10.000000 10.000000 10.000000 | MARATHON OIL COMPANY | 1.666000 | ABO PETROLEUM CORPORATION HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 0.625000 2.083340 2.083330 2.083330 3.125000 7.500000 6.250000 0.625000 69.375000 |
| 19 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 20: W2W1/2SE4NE4 | 10.00 | ANALEE VALGHT/MARATHON NM-403-1770-A FEE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | MARATHON OIL COMPANY | 5.000000 | ABO PETROLEUM CORPORATION HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 0.625000 2.083340 2.083330 2.083330 3.125000 7.500000 6.250000 0.625000 69.375000 |
| 20 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM, SECTION 20: SE4NE4 | 40.00 | CARL E. ROSS / ROGER HANKS NM-403-487 FEE - HBP UNLEASED MINERALS 5.833333 BONNIE H. MORRISON / READING & NM-403-487-A FEE - HBP | ABO PETROLEUM CORPORATION SHARBO OIL LIMITED COMPANY TRUST Q UNWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHNA ABO PETROLEUM CORPORATION SHARBO OIL LIMITED COMPANY TRUST Q UNWIO PEGGY A. YATES ESTATE OF LILLIE M. YATES | 16.666666 16.666667 8.333333 16.666667 33.333334 8.333333 16.666667 8.333333 16.666667 8.333333 16.666666 | BP AMERICA PRODUCTION COMPANY DEVON ENERGY PRODUCTION CO., LP GOOD EARTH MINERALS, LLC HEARD, MYRTLE HICKAM, JEWEL T. MARSHALL & WINSTON, INC. MATLOCK MINERALS LIMITED COMPANY NEARBURG EXPLORATION COMPANY PANHANDLE ROYALTY COMPANY POWELL, BONNIE | 3.125000 1.171880 0.306930 0.306920 0.306920 1.562500 0.306930 0.781260 4.687500 0.306920 | ABO PETROLEUM CORPORATION BELL, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. BUNN, ROBERT B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II | 3.286611 0.004130 0.004126 0.004126 0.068122 1.171875 0.927343 0.927343 1.171875 0.068671 |

| TR # | TRACT ACRES | DESCRIPTION OF LANDS | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | | | |
|------|-------------|--|--|--|---|---|--|--|---|--|--|
| 27 | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4M SECTION 21: NW/4NW/4 | 2.500000 UNLEASED MINERALS 2.500000 UNLEASED MINERALS 40.000000 MARY LEE JONES FEE - HBP | CHARLES H. COLL JOHN F. COLL ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 100.000000 100.000000 20.000000 20.000000 20.000000 40.000000 HINKLE, MADISON M. HINKLE, ROLLA R. III NUEVO SEIS, LIMITED OSCURA RESOURCES, INC. SCHERTZ, MORRIS E. | NONE 1.875000 1.875000 7.500000 3.750000 3.750000 | ABO PETROLEUM CORPORATION BLANTON, KIMBERLY STEWART COLL, CHARLES H. COLL, CHRISTOPHER DALE COLL, CLARKE C. COLL, ERIC J. COLL, JON F. II COLL, KENNETH JAMES COLL, MAX W. II COLL, MAX W. III COLL, MICHAEL T. COLL, RICHARD KEITH COLL, SALLY RODGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES HOLLYHOCK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 7.500000 0.260417 1.562500 0.260417 0.703125 0.703125 0.371979 0.260416 0.837500 0.022344 0.260417 0.260416 0.825000 0.022344 0.260416 2.063334 2.063333 2.063333 7.500000 5.468750 0.781250 8.770633 0.260416 6.250000 7.500000 45.208335 | OPERATING AGREEMENT HOOPER AMP #2 SECTION 21: NW/4 403-487-U2 4-14-1983 | | |
| 28 | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4M SECTION 21: SW/4NW/4 | 5.000000 COOPER, PATRICIA JOHNSON NM-403-1723 FEE - HBP 5.000000 JOHNSON, S. P. III & BARBARA J. NM-403-1723-A FEE - HBP 10.000000 HARVEY E. YATES NM-403-1723-B FEE - HBP 10.000000 UNLEASED MINERALS 1.666667 UNLEASED MINERALS 3.333333 UNLEASED MINERALS 3.333333 UNLEASED MINERALS 1.666667 UNLEASED MINERALS | ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION YATES DRILLING COMPANY SPIRAL, INC. S. P. YATES RICHARD B. LODEWICK JOHN W. LODEWICK LAURA PATRICIA LODEWICK LODEWICK ENERGY, INC. | 10.000000 10.000000 70.000000 10.000000 10.000000 10.000000 10.000000 10.000000 70.000000 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 | HOOPER, ROBERT G. JOHNSON, S. P. III & BARBARA J. PJC LIMITED PARTNERSHIP SPIRAL, INC. | NONE 0.250000 3.000000 3.000000 3.125000 | ABO PETROLEUM CORPORATION BLANTON, KIMBERLY STEWART COLL, CHARLES H. COLL, CHRISTOPHER DALE COLL, CLARKE C. COLL, ERIC J. COLL, JON F. II COLL, KENNETH JAMES COLL, MAX W. II COLL, MAX W. III COLL, MICHAEL T. COLL, RICHARD KEITH COLL, SALLY RODGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES HOLLYHOCK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 7.500000 0.260417 1.562500 0.260417 0.703125 0.703125 0.371979 0.260416 0.837500 0.022344 0.260417 0.260416 0.825000 0.022344 0.260416 2.063334 2.063333 2.063333 7.500000 5.468750 0.781250 8.770633 0.260416 6.250000 7.500000 45.208335 | OPERATING AGREEMENT HOOPER AMP #2 SECTION 21: NW/4 403-487-U2 4-14-1983 | |
| 29 | 120.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4M SECTION 21: NW/4SW/4, E25W/4 | 2.500000 NIXON, C. R., JR. ETAL NM-103-246 FEE - HBP 17.500000 ROSS, JOE E. / ROGER HANKS NM-403-487 FEE - HBP 5.000000 HILDT, LEWA W., ETAL NM-403-487-C FEE - HBP 2.500000 ROSS, JOE E. / ROGER HANKS NM-403-487-E FEE - HBP 2.500000 ROSS, ALTON / ROGER HANKS NM-403-487-G FEE - HBP 2.500000 POWELL, BONNIE / ROGER HANKS NM-403-487-H FEE - HBP | SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY ESTATE OF LILLIE M. YATES ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWID PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWID PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWID PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWID PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY | 50.000000 25.000000 25.000000 16.666667 16.666667 8.333333 8.333333 33.333334 33.333333 100.000000 16.666667 16.666667 16.666667 8.333333 8.333333 16.666667 16.666667 16.666667 8.333333 8.333333 16.666667 16.666667 16.666667 8.333333 8.333333 33.333334 | DEVON ENERGY PRODUCTION CO., LP GOOD EARTH MINERALS, LLC HEARD, MYRTLE HICKAM, JEWEL T. MARSHALL & WINSTON, INC. MATLOCK MINERALS LIMITED COMPANY NEARBURG EXPLORATION COMPANY NEARHANDLE ROYALTY COMPANY POWELL, BONNIE ROSS FAMILY LIVING TRUST ROSS, BERT A. & OLETA F. ROSS, GARY ROSS, J. T. ROSS, JOE E. ROSS, RALPH ROSS, ROBERT ROSS, RONALD ROSS, WILLIAM SHEETS, ELIZABETH RUTH NIXON WEDDERBURN PROPERTIES, LLC | 1.171880 0.444679 0.260417 0.260417 1.562500 0.444679 0.781250 7.031250 0.260417 0.401042 0.260417 0.236979 0.236979 0.260417 0.236979 0.236979 0.236979 0.165313 0.165313 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. CURRY, FLORENCE M. EISSMAN DAWSON, NEVA CHAMBERS ESSMAN, JAMES H. FREEMAN, ALICE ANN HANKS HUNTINGTON ENERGY, LLC JON F. COLL, ERIC J. LIPSCOMB, CELESTE CHAMBERS OSCURA RESOURCES, INC. PROBANDT, W. T. & JEANETTE J. ROBERTS, MIKE H. | ABO PETROLEUM CORPORATION BELL, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY RODGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES HOLLYHOCK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES PETROLEUM CORPORATION | 3.125000 0.016520 0.016520 0.016520 2.343750 1.054800 1.054800 2.343750 0.167330 1.402250 0.033520 0.937500 0.033520 1.171880 0.553380 0.008260 0.390620 0.024780 0.016520 0.000690 0.002750 1.041880 0.016520 0.008260 1.041870 1.041870 0.041290 3.125000 5.966580 | OPERATING AGREEMENT HOOPER AMP #1 SECTION 21: SW/4 403-487-U 2-19-1983 |

| TRACT # | TRACT DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|---------|--|-----------|-----------------------------------|---------------------------------|------------------------------|-----------------------------------|---------------------------------|--|
| 39 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NNPM SECTION 28: E2SE/ANW4 | 20.00 | 0.416666 | ROSS, JOE E. / ROGER HANKS | ABO PETROLEUM CORPORATION | 16.666666 | 0.236979 | LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PAC LIMITED PARTNERSHIP SACRAMENTO PARTNERS LIMITED SHARRO OIL LIMITED COMPANY SPIRAL, INC. UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES DRILLING COMPANY YATES ENERGY CORPORATION YATES PETROLEUM CORPORATION |
| | | | | NM-403-487-E | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.236979 | |
| | | | | FEE - HBP | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.236979 | |
| | | | | | ESTATE OF LILLIE M. YATES | 16.666667 | 0.236979 | |
| | | | | | YATES DRILLING COMPANY | 33.333334 | 0.236979 | |
| | | | | | YATES, JOHN A. | 8.333333 | 0.236979 | |
| | | | | | ABO PETROLEUM CORPORATION | 16.666666 | 0.236979 | |
| | | | | | SHARRO OIL LIMITED COMPANY | 8.333333 | 0.236979 | |
| | | | | | TRUST Q UMWQ PEGGY A. YATES | 16.666667 | 0.236979 | |
| | | | | | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
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| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
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| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
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| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | 8.333333 | 0.163312 | | | | | |
| | ESTATE OF LILLIE M. YATES | 33.333334 | 0.163312 | | | | | |
| | YATES DRILLING COMPANY | 8.333333 | 0.163312 | | | | | |
| | YATES, JOHN A. | 16.666666 | 0.163312 | | | | | |
| | ABO PETROLEUM CORPORATION | 8.333333 | 0.163312 | | | | | |
| | SHARRO OIL LIMITED COMPANY | 16.666666 | 0.163312 | | | | | |
| | TRUST Q UMWQ PEGGY A. YATES | | | | | | | |

EXHIBIT C
SCHEDULE SHOWING UNIT PARTICIPATION OF EACH WORKING INTEREST OWNER
PAGE 1 OF 2

| OWNER NAME | UNIT PARTICIPATION |
|-----------------------------------|--------------------|
| ABO PETROLEUM CORPORATION | 1.535016 |
| BP AMERICA PRODUCTION COMPANY | 0.060826 |
| MCCOWN, CATHIE CONE | 0.083703 |
| AUVENSHINE CHILDREN'S | 0.100862 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 0.067243 |
| BELLO, ERNIE | 0.005115 |
| BLANTON, KIMBERLY STEWART | 0.014039 |
| BROWN BROTHERS HARRIMAN TRUST | 0.004346 |
| BUNN, FRANCES B. | 0.005115 |
| BUNN, ROBERT B. | 0.002608 |
| COLL, CLARKE C. | 0.090069 |
| COLL, ERIC J. | 0.090069 |
| COLL, CHARLES H. | 0.200151 |
| COLL, CHRISTOPHER DALE | 0.014039 |
| COLL, KENNETH JAMES | 0.014039 |
| COLL, MICHAEL T. | 0.014039 |
| COLL, RICHARD KEITH | 0.014039 |
| COLL, SALLY RODGERS | 0.080057 |
| COLL, JON F. | 0.115922 |
| COLL, JON F. II | 0.028329 |
| COLL, MAX W. II | 0.120090 |
| COLL, MAX W. III | 0.002864 |
| CONE, RANDY LEE | 0.033621 |
| CONE, TOM R. | 0.076537 |
| CONE, KENNETH G. | 0.095039 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 0.100862 |
| COLUMBIA RIVER RESOURCES, INC. | 0.074243 |
| DETEMPLE, MELANIE COLL | 0.002864 |
| DEVON ENERGY PRODUCTION CO., LP | 0.026739 |
| E. G. L. RESOURCES, INC. | 0.117871 |
| EXPLORERS PETROLEUM CORP. | 0.067241 |
| F & J ENERGY PARTNERS, LTD. | 0.080543 |
| FIRST ROSWELL COMPANY | 0.055737 |
| OLIVER, WILLIAM B. TRUST | 0.005077 |
| GFB ACQUISITION - 1, LP | 0.114987 |
| GENDRON, J. W. | 0.003210 |
| GOODNOW, DAVID | 0.002159 |
| HANSON-MCBRIDE PETROLEUM CO. | 0.104975 |
| HODGE, JOSEPH R. | 0.000269 |
| HODGE, SANFORD J. III | 0.000576 |
| ELSIE G. HOLDEN, TESTAMENTARY | 0.001319 |
| HOLLYHOCK, LTD | 0.325241 |
| JALAPENO CORPORATION | 0.101898 |
| JOHNSON, S. P. III & BARBARA J. | 0.067337 |
| KAWASAKI, DR. ISAAC A. | 0.002106 |
| KELLER, BETSY H. | 0.001319 |
| LANGDALE CORPORATION | 0.040393 |
| LODEWICK, JOHN W. | 0.325242 |

EXHIBIT C
SCHEDULE SHOWING UNIT PARTICIPATION OF EACH WORKING INTEREST OWNER
PAGE 2 OF 2

| OWNER NAME | UNIT PARTICIPATION |
|------------------------------|--------------------|
| LODEWICK, LAURA PATRICIA | 0.325242 |
| MARKS OIL INC. | 0.075691 |
| MARSHALL & WINSTON, INC. | 0.074708 |
| MEWBOURNE, CURTIS W. | 0.161573 |
| MOORE, CHARLES CLINE | 0.004128 |
| MOORE, MICHAEL HARRISON | 0.012154 |
| MOORE, RICHARD L. | 0.012154 |
| MOORE, STEPHEN SCOTT ESTATE | 0.012154 |
| MYCO INDUSTRIES, INC. | 1.625054 |
| NEARBURG EXPLORATION COMPANY | 9.436103 |
| OZARK EXPLORATION, INC. | 0.525327 |
| OZARK (GAS) / ALTURA (OIL) | 0.530185 |
| PJC LIMITED PARTNERSHIP | 0.067337 |
| PANHANDLE ROYALTY COMPANY | 0.434066 |
| PITCH ENERGY CORPORATION | 0.127640 |
| REYNOLDS, FRED N. | 0.080543 |
| RUTHEA, INC. | 0.040393 |
| SACRAMENTO PARTNERS LIMITED | 2.229919 |
| SCHUMAN, ADOLPH P. | 0.002138 |
| SHARBRO OIL LIMITED COMPANY | 0.414960 |
| SOUTHWEST ROYALTIES, INC. | 1.690908 |
| SPACE BUILDING CORPORATION | 0.005803 |
| SPIRAL, INC. | 1.086602 |
| TOM BROWN, INC. | 0.790735 |
| TRANSREPUBLIC RESOURCES, LTD | 0.004842 |
| UNIT PETROLEUM COMPANY | 2.432449 |
| VINTAGE PETROLEUM, INC. | 0.736598 |
| VOIGT, WILMA EVELYN | 0.334424 |
| VAN VRANKEN, FREDERICK, JR. | 0.004574 |
| YATES ENERGY CORPORATION | 0.213674 |
| TRUST Q U/W/O PEGGY A. YATES | 0.298393 |
| HARVEY E. YATES COMPANY | 0.507310 |
| ESTATE OF LILLIE M. YATES | 0.414960 |
| YATES DRILLING COMPANY | 2.131806 |
| YATES, JOHN A. | 0.298400 |
| YATES PETROLEUM CORPORATION | 68.367068 |
| TOTAL | 100.000000 |

EXHIBIT D
SCHEDULE OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING INTEREST OWNER
PAGE 1 OF 2

| OWNER NAME | BOE RESERVES, STBOE |
|-----------------------------------|---------------------|
| ABO PETROLEUM CORPORATION | 10127.0 |
| BP AMERICA PRODUCTION COMPANY | 53.2 |
| MCCOWN, CATHIE CONE | 342.6 |
| AUVENSHINE CHILDREN'S | 342.7 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 228.3 |
| BELLO, ERNIE | 21.1 |
| BLANTON, KIMBERLY STEWART | 200.8 |
| BROWN BROTHERS HARRIMAN TRUST | 17.1 |
| BUNN, FRANCES B. | 21.1 |
| BUNN, ROBERT B. | 7.7 |
| COLL, CLARKE C. | 770.9 |
| COLL, ERIC J. | 770.9 |
| COLL, CHARLES H. | 1713.3 |
| COLL, CHRISTOPHER DALE | 200.8 |
| COLL, KENNETH JAMES | 200.8 |
| COLL, MICHAEL T. | 200.8 |
| COLL, RICHARD KEITH | 200.8 |
| COLL, SALLY RODGERS | 685.3 |
| COLL, JON F. | 508.3 |
| COLL, JON F. II | 323.2 |
| COLL, MAX W. II | 1028.2 |
| COLL, MAX W. III | 24.4 |
| CONE, RANDY LEE | 114.3 |
| CONE, TOM R. | 301.9 |
| CONE, KENNETH G. | 342.6 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 342.7 |
| COLUMBIA RIVER RESOURCES, INC. | 270.0 |
| DETEMPLE, MELANIE COLL | 24.4 |
| DEVON ENERGY PRODUCTION CO., LP | 169.2 |
| E. G. L. RESOURCES, INC. | 420.1 |
| EXPLORERS PETROLEUM CORP. | 233.3 |
| F & J ENERGY PARTNERS, LTD. | 1006.1 |
| FIRST ROSWELL COMPANY | 321.7 |
| OLIVER, WILLIAM B. TRUST | 21.1 |
| GFB ACQUISITION - 1, LP | 618.4 |
| GENDRON, J. W. | 8.4 |
| GOODNOW, DAVID | 5.5 |
| HANSON-MCBRIDE PETROLEUM CO. | 294.5 |
| HODGE, JOSEPH R. | 0.3 |
| HODGE, SANFORD J. III | 1.7 |
| ELSIE G. HOLDEN, TESTAMENTARY | 4.4 |
| HOLLYHOCK, LTD | 2666.2 |
| JALAPENO CORPORATION | 336.9 |
| JOHNSON, S. P. III & BARBARA J. | 113.2 |
| KAWASAKI, DR. ISAAC A. | 5.5 |
| KELLER, BETSY H. | 4.4 |
| LANGDALE CORPORATION | 340.8 |
| LODEWICK, JOHN W. | 2666.2 |
| LODEWICK, LAURA PATRICIA | 2666.2 |

EXHIBIT D
SCHEDULE OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING INTEREST OWNER
PAGE 2 OF 2

| OWNER NAME | BOE RESERVES, STBOE |
|------------------------------|---------------------|
| MARKS OIL INC. | 422.2 |
| MARSHALL & WINSTON, INC. | 280.2 |
| MEWBOURNE, CURTIS W. | 1363.4 |
| MOORE, CHARLES CLINE | 7.4 |
| MOORE, MICHAEL HARRISON | 40.0 |
| MOORE, RICHARD L. | 40.0 |
| MOORE, STEPHEN SCOTT ESTATE | 40.0 |
| MYCO INDUSTRIES, INC. | 10566.5 |
| NEARBURG EXPLORATION COMPANY | 74426.6 |
| OZARK EXPLORATION, INC. | 1971.8 |
| OZARK (GAS) / ALTURA (OIL) | 54.7 |
| PJC LIMITED PARTNERSHIP | 113.2 |
| PANHANDLE ROYALTY COMPANY | 1359.7 |
| PITCH ENERGY CORPORATION | 951.7 |
| REYNOLDS, FRED N. | 1006.1 |
| RUTHEA, INC. | 340.8 |
| SACRAMENTO PARTNERS LIMITED | 12351.1 |
| SCHUMAN, ADOLPH P. | 5.5 |
| SHARBRO OIL LIMITED COMPANY | 2181.4 |
| SOUTHWEST ROYALTIES, INC. | 19994.2 |
| SPACE BUILDING CORPORATION | 12.4 |
| SPIRAL, INC. | 8438.3 |
| TOM BROWN, INC. | 13480.2 |
| TRANSREPUBLIC RESOURCES, LTD | 26.1 |
| UNIT PETROLEUM COMPANY | 10931.5 |
| VINTAGE PETROLEUM, INC. | 6816.6 |
| VOIGT, WILMA EVELYN | 1930.7 |
| VAN VRANKEN, FREDERICK, JR. | 21.1 |
| YATES ENERGY CORPORATION | 706.5 |
| TRUST Q U/W/O PEGGY A. YATES | 1682.5 |
| HARVEY E. YATES COMPANY | 1654.5 |
| ESTATE OF LILLIE M. YATES | 2181.4 |
| YATES DRILLING COMPANY | 13492.0 |
| YATES, JOHN A. | 1682.5 |
| YATES PETROLEUM CORPORATION | 459540.9 |
| TOTAL | 681403.0 |

EXHIBIT E
SCHEDULE OF VALUES OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING
INTEREST OWNER FOR WITHDRAWAL FROM UNIT PURSUANT TO PARAGRAPH 17.1
PAGE 1 OF 2

| OWNER NAME | VALUE OF RESERVES, DOLLARS |
|-----------------------------------|----------------------------|
| ABO PETROLEUM CORPORATION | 9,277 |
| BP AMERICA PRODUCTION COMPANY | 838 |
| MCCOWN, CATHIE CONE | 832 |
| AUVENSHINE CHILDREN'S | 997 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 665 |
| BELLO, ERNIE | 57 |
| BLANTON, KIMBERLY STEWART | 307 |
| BROWN BROTHERS HARRIMAN TRUST | 51 |
| BUNN, FRANCES B. | 57 |
| BUNN, ROBERT B. | 23 |
| COLL, CLARKE C. | 1,973 |
| COLL, ERIC J. | 1,973 |
| COLL, CHARLES H. | 4,383 |
| COLL, CHRISTOPHER DALE | 307 |
| COLL, KENNETH JAMES | 307 |
| COLL, MICHAEL T. | 307 |
| COLL, RICHARD KEITH | 307 |
| COLL, SALLY RODGERS | 1,753 |
| COLL, JON F. | 2,539 |
| COLL, JON F. II | 620 |
| COLL, MAX W. II | 2,630 |
| COLL, MAX W. III | 63 |
| CONE, RANDY LEE | 332 |
| CONE, TOM R. | 750 |
| CONE, KENNETH G. | 941 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 997 |
| COLUMBIA RIVER RESOURCES, INC. | 416 |
| DETEMPLE, MELANIE COLL | 63 |
| DEVON ENERGY PRODUCTION CO., LP | 257 |
| E. G. L. RESOURCES, INC. | 1,627 |
| EXPLORERS PETROLEUM CORP. | 695 |
| F & J ENERGY PARTNERS, LTD. | 1,111 |
| FIRST ROSWELL COMPANY | 535 |
| OLIVER, WILLIAM B. TRUST | 57 |
| GFB ACQUISITION - 1, LP | 999 |
| GENDRON, J. W. | 34 |
| GOODNOW, DAVID | 23 |
| HANSON-MCBRIDE PETROLEUM CO. | 1,044 |
| HODGE, JOSEPH R. | 3 |
| HODGE, SANFORD J. III | 3 |
| ELSIE G. HOLDEN, TESTAMENTARY | 15 |
| HOLLYHOCK, LTD | 6,784 |
| JALAPENO CORPORATION | 1,045 |
| JOHNSON, S. P. III & BARBARA J. | 1,475 |
| KAWASAKI, DR. ISAAC A. | 24 |
| KELLER, BETSY H. | 15 |
| LANGDALE CORPORATION | 557 |

EXHIBIT E
SCHEDULE OF VALUES OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING
INTEREST OWNER FOR WITHDRAWAL FROM UNIT PURSUANT TO PARAGRAPH 17.1
PAGE 2 OF 2

| OWNER NAME | VALUE OF RESERVES, DOLLARS |
|------------------------------|----------------------------|
| LODEWICK, JOHN W. | 6,784 |
| LODEWICK, LAURA PATRICIA | 6,784 |
| MARKS OIL INC. | 1,658 |
| MARSHALL & WINSTON, INC. | 1,636 |
| MEWBOURNE, CURTIS W. | 2,230 |
| MOORE, CHARLES CLINE | 46 |
| MOORE, MICHAEL HARRISON | 266 |
| MOORE, RICHARD L. | 266 |
| MOORE, STEPHEN SCOTT ESTATE | 266 |
| MYCO INDUSTRIES, INC. | 9,644 |
| NEARBURG EXPLORATION COMPANY | 24,675 |
| OZARK EXPLORATION, INC. | 5,407 |
| OZARK (GAS) / ALTURA (OIL) | 8,460 |
| PJC LIMITED PARTNERSHIP | 1,475 |
| PANHANDLE ROYALTY COMPANY | 5,990 |
| PITCH ENERGY CORPORATION | 1,762 |
| REYNOLDS, FRED N. | 1,111 |
| RUTHEA, INC. | 557 |
| SACRAMENTO PARTNERS LIMITED | 40,820 |
| SCHUMAN, ADOLPH P. | 23 |
| SHARBRO OIL LIMITED COMPANY | 3,886 |
| SOUTHWEST ROYALTIES, INC. | 12,980 |
| SPACE BUILDING CORPORATION | 71 |
| SPIRAL, INC. | 13,620 |
| TOM BROWN, INC. | 6,131 |
| TRANSREPUBLIC RESOURCES, LTD | 42 |
| UNIT PETROLEUM COMPANY | 26,615 |
| VINTAGE PETROLEUM, INC. | 10,165 |
| VOIGT, WILMA EVELYN | 4,615 |
| VAN VRANKEN, FREDERICK, JR. | 51 |
| YATES ENERGY CORPORATION | 2,192 |
| TRUST Q U/W/O PEGGY A. YATES | 3,485 |
| HARVEY E. YATES COMPANY | 5,193 |
| ESTATE OF LILLIE M. YATES | 3,887 |
| YATES DRILLING COMPANY | 16,197 |
| YATES, JOHN A. | 3,484 |
| YATES PETROLEUM CORPORATION | 599,500 |
| TOTAL | 882,042 |

YATES PETROLEUM CORPORATION

UNIT OPERATING AGREEMENT

NORTH DAGGER DRAW UPPER PENN UNIT

Dated: October 1, 2003

Township 19 South, Range 25 East

Section 16: All

Section 17: All

Section 18: Lots 3,4, E/2SW/4, SE/4NW/4,
SW/4NE/4, E/2NE/4, SE/4

Section 19: All

Section 20: All

Section 21: All

Section 28: All

Section 29: All

Section 30: All

Eddy County, New Mexico

UNIT OPERATING AGREEMENT
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as the 1st day of October, 2003 by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, North Dagger Draw Upper Penn Unit, Eddy County, New Mexico, herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference

2.1.1 Exhibit "A", attached hereto, is a map of the Unit Area showing the boundaries of each Tract and their respective Tract Numbers.

2.1.2 Exhibit "B", attached hereto, is a schedule showing all lands and leases, legal descriptions thereof and ownership within each Tract.

2.1.3 Exhibit "C", attached hereto, is a schedule showing the Unit Participation of each Working Interest Owner. Exhibit "C", or a revision thereof, shall not be conclusive as to the information

therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error or revised as herein authorized.

2.1.4 Exhibit "D", attached hereto, is a schedule of remaining primary reserves allocable to each of the Working Interest Owners.

2.1.5 Exhibit "E", attached hereto, is a schedule of values of remaining primary reserves allocable to each Working Interest Owner for the purpose of Withdrawal from the Unit pursuant to paragraph 17.1.

2.1.6 Exhibit "F", attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit "F", this Agreement shall govern.

2.1.7 Exhibit "G", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.8 Exhibit "H", attached hereto contains a Certificate of Non-segregated Facilities applicable to the Unit

2.2 Revision of Exhibits. Whenever Exhibits "A" or "B" are revised, Exhibit "C" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. Working Interest Owners shall be provided a duplicate copy of any exhibit revised as provided herein.

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

3.2.2 Drilling of Wells. The drilling, deepening, or plugging back of any well whether for 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 for 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 of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefore, and for completing, testing and equipping the well, including necessary flow lines, separators, and lease tankage; provided however, that in case of blowout, explosion, fire, flood or other sudden emergencies, Unit Operator may take steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life or property but that Unit Operator shall, as promptly as possible, report the emergency to the Working Interest Owners.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Twenty Thousand Dollars (\$20,000.00) or more.

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 Inventories. The taking of periodic inventories under the terms of Exhibit "F".

3.2.9 Technical Services. The authorizing of charges to the Joint Account of services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "F."

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation then in effect of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote.

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 three or more Working Interest Owners having a combined voting interest of at least seventy-five percent (75%); however, should any one Working Interest Owner have

more than twenty-five percent (25%) voting interest, its negative vote or failure to vote shall not defeat a motion, and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless three or more Working Interest Owners having combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any agenda item by letter, telegram, fax or email, addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting, provided the agenda items are not amended.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter, telegram, fax or email, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter, telegram, fax or email shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

5.3 Undrilled Locations. Unit Operator shall have the option to drill any undrilled locations on tracts committed to the Unit Area at Unit Expense subject to Article 3.2.2 and partners' approval as listed under Article 4.3.

5.4 Taking Unitized Substances In Kind. Each Working Interest Owner shall have the right to take in kind and separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive

of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. 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. 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, shall 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 three years, 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.

Unit Operator shall be responsible for the payment of all royalty, overriding royalty and production payments due on each Tract committed hereto, and each Working Interest Owner shall hold each other Working Interest Owner and Unit Operator harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments. Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract 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 and Unit Operator harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Yates Petroleum Corporation, a New Mexico corporation, is hereby designated as Unit Operator.

6.2. 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, the Land Commissioner 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 Land Commissioner and 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 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.

6.3 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or 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 two 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.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefore 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 an similar nature.

7.11 Mathematical Errors. Unit Operator is empowered to correct any mathematical errors, which might exist in the pertinent exhibits to this Agreement.

7.12 Border Agreement. Subject to the provisions and conditions in the Unit Agreement, Unit Operator shall have the right and authority to enter into border protection agreements or cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

7.13 Conflict of Supervision. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

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. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in property shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

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

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

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation.

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, the personal property taken over by Unit Operator under Section 10.1.2. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit "F" except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property 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 taken over the Unit Operator under Section 10.1.2. by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owners. If 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 system, 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.

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

ARTICLE 11

UNIT EXPENSE

11.1 Basis for 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 of such Unit Expense shall be the same as its Unit Participation for:

- (a) items in the nature of capital assets including, without limitation, real property if acquired;
- (b) acquiring, drilling, re-drilling, equipping and re-equipping water injection wells, re-plugging or converting oil wells to water injection wells, pumping and pipeline facilities for such wells, and changing any injection interval in any such well;
- (c) re-entry and re-plugging of wells outside the unit area as necessary to permit water injection into appropriate wells within the unit area;
- (d) gathering lines and facilities and common tank batteries utilized or acquired for Unit Operations, and
- (e) water purchased from parties other than Working Interest Owners obtained for injection purposes and the costs of transportation and injection thereof into the Unit Area.

Unit Operator will furnish make-up water from its Dagger Draw disposal system at no cost for Unit Operations so long as such water is available. Unit Operator shall charge as Unit Expense 2 cents per barrel handling fee for the make-up water handling and 6 cents per barrel for produced water injection. Each Working Interest Owner's share of all other Unit Expense shall be the same as its Unit Participation in effect at that time. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit "F".

The First Phase Unit Operations shall be defined as all Unit Operations necessary to prepare the Unit for injection, initiate injection into the Unitized Formation and shall extend until the first day of the month immediately following six (6) months after the initiation of injection into the Unitized Formation. First Phase Unit Expense shall include all Unit

Expense necessary to accomplish the First Phase Unit Operations inclusive of Unit Expense accrued through six (6) months after initiation of injection.

11.2 Budgets. Upon execution of this agreement and the Unit Agreement, and simultaneously therewith, Working Interest Owners agree to the estimated Budget for the First Phase Unit Expense. Each Working Interest Owner shall agree and be obligated to pay their respective share of First Phase Unit Expense through completion of the First Phase Unit Operations. Subsequent to the First Phase Operations Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and on or before the first day of each October thereafter shall prepare such a budget for the ensuing calendar year. 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, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective share of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien and Security Interest of Unit Operator and the Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment to secure payment of its share of Unit Expense, together with interest thereon at the rate of twelve percent (12%) per annum, with the further provision that Unit Operator grants a like lien to Working Interest Owners. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, 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 a 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 thereof. In addition, upon default by any Working Interest Owners in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice, to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owners, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. The rights herein granted the Unit Operator shall in like manner apply to the other Working Interest Owners.

In addition to the liens and security interest as provided herein, each Non-Operator to this Agreement, to secure payment of its share of expenses incurred under this Operating Agreement, grants Operator a lien on all of its right, title and interest now owned or hereafter acquired in the contract Area including, but not limited to, the oil and gas leases, mineral estates and other mineral interests subject to this Operating Agreement and any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests; and all unsevered and unextracted oil, gas and other hydrocarbons that may be produced, obtained or secured from the lands covered and affected by such mineral interests.

In addition to the rights and remedies afforded to Operator pursuant to the terms hereof, or at law or in equity, it is understood and agreed that each defaulting party grants to the Operator a contractual right of offset in and to all money, production, proceeds from the sale of production and property of every kind or character of such defaulting party, now or at any time hereunder coming within Operator's custody or control, wheresoever located whether or not subject to the terms of the Agreement or any other agreement between Operator and defaulting party. Operator, may, at its election, at any time and from time to time, reduce (or eliminate, as the case may be) any debt owing to it by any defaulting party by applying such defaulting party's money, proceeds or property in the custody or control of Operator to the balance owed on such debt and giving such defaulting party appropriate credit therefore. Any such amount so applied shall first be applied to any past due interest, if any, then to any costs, including attorney's fees, incurred by Operator in the collection of the proceeds or property, and then to the underlying debt. It is agreed and understood that Operator's contractual right of offset shall extend to and include all proceeds of production attributable to the defaulting party from any wells in which the defaulting party owns an interest.

In addition to all rights and remedies afforded Operator under this agreement, in the event any debt owing by the defaulting party to Operator shall exceed any money, proceeds of sale of production, or property of such defaulting party as provided in the contractual right of offset as provided above, the Operator may elect to proceed and foreclose the lien of Operator against the interest of any defaulting party in the contract area.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense, whether subject to Advance Billing or usual monthly billing, Unit Operator shall give such Working Interest Owner a second notice requesting payment. If within fifteen (15) days after receipt of the second notice the Working Interest Owner has not paid to Unit Operator its unpaid Unit Expense, such Working Interest Owner shall be deemed in default and shall be deemed to have relinquished to the Unit Operator, and any other Working Interest Owner agreeing to pay its proportionate part of the defaulting owner's Unit Expense, all of its Oil and Gas Rights and Working Interest in and to the Unit. Thereafter such defaulting owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the defaulting Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest relinquished. Upon the effective date of relinquishment, the Unit Participations of the Working Interest Owners paying the default shall be revised to reflect the increase in their shares resulting from the default interest. Should there be a legitimate dispute of

a Unit Expense and a Working Interest Owner continues to pay undisputed Unit Expenses no default or relinquishment will occur until a determination has been made under the audit procedures herein and further provided in Exhibit "F". Notwithstanding anything herein to the contrary, all Working Interest Owners shall remain responsible, subject to the Lien and Security provisions of Section 11.5, for payment of their proportionate share of the costs of plugging and abandoning the Unit wells.

11.7 Carved-Out Interest. If any Working Interest Owners shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien of Unit Operator." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Sections 11.5 and 11.6 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Salvage Credit. Credit for Unit Equipment salvaged shall be divided in the same proportion as the Unit participation.

11.9 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. The Working Interest Owners recognize that there are Existing Operating Agreements covering the Unitized Formation, as to each Spacing Unit as designated by the New Mexico Oil Conservation Division, as well as other formations. This Unit Operating Agreement supercedes the Existing Operating Agreements only as to the Unitized Formation, and such Existing Operating Agreement continues in full force and effect as to any other lands and formations covered thereby. 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 above or 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, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory

to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13

TITLES

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

13.2 Failure Because of Unit Operations. The failure of title of 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.

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 Thirty Thousand Dollars (\$30,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State of New Mexico, or any future income tax of the United States, contain provisions similar to those in Subchapter K, Chapter I, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted, or required by such laws. In making this election, each of the parties' states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

15.2 Statutory Unitization. If working Interest Owners owning at least, seventy-five percent (75%) of the Unit Participation have become parties to this Agreement and if Royalty Interest Owners owning at least seventy-five percent (75%) of the Royalty Interest have become parties hereto, the Unit Operator may make application to the New Mexico Oil Conservation Division of the Energy and Minerals Department for statutory unitization of the uncommitted interests.

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, fax, email, or telephone to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4. Any notice given by telephone shall be promptly followed by written confirmation.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. At the completion of the First Phase Unit Operations Unit Operator shall give notice to each Working Interest Owner. A Working Interest Owner shall then have 30 days from receipt of notice to make a one-time election to withdraw from this Agreement and the Unit by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, effective the first day following completion of the First Phase Unit Operations, 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. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of the instrument of transfer. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations then in effect or in other proportions as may be agreed by the transferees. The transferees, in proportion to the respective interests so acquired, shall pay transferor according to the Schedule of Values for Withdrawal from the Unit, Exhibit "E." (The Schedule of Values for Withdrawal from the Unit, Exhibit "E", are calculated taking into consideration the net salvage value of Unit Equipment, the cost of salvaging and of plugging and abandoning wells then being used or held for Unit Operations.) In the event such withdrawing owner's interest in the aforesaid value is negative, 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 value 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. Upon the effective date of transfer, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest. Working Interest Owners electing not to withdraw during the 30 day election period provided shall thereafter participate in Unit Operations and be required to pay their proportionate share of Unit Expense until termination of the Unit, including all costs of plugging and abandoning Unit Wells.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the

Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Spacing Unit on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Should the Working Interest Owners within the Spacing Unit elect not to take over the well the Unit Operator shall give written notice to the other Working Interest Owners in the Unit, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten, (10) days after the Working Interest Owners 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 to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners, 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 no Working Interest Owners elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

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

20.1.2. Right to Operate. Working Interest Owners of any Spacing Unit 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 values, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

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

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

LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

21.1 Laws and Regulations This Agreement and operations hereunder are subject to all valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state and local laws, ordinances, rules, regulations and orders; and any provision of this agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly. This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of New Mexico.

21.2 Certificate of Compliance. In the performance of work under this agreement, the parties agree to comply with, and Unit Operator shall require each independent contractor to comply with, the Federal contract provisions of Exhibit "H."

ARTICLE 22

EXECUTION

22.1 Original, Counterpart, or other Instruments. An owner of a Working Interest may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23

SUCCESSORS AND ASSIGNS

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

Should any interest committed hereto be or become owned by three (3) or more parties, then all of such parties shall be obligated to appoint a single agent to represent such interest for the purpose of accepting billings and receiving payments, if any, arising hereunder, or under the Unit Agreement, and for vote upon any matter which is the subject of determination of by the Working Interest Owners.

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

YATES PETROLEUM CORPORATION
Unit Operator and Working Interest Owner

By _____
Attorney-in-Fact

R 25 E

T 1 9 S

EXHIBIT "A"

YATES PETROLEUM CORPORATION

NORTH DAGGER DRAW

UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO

Federal Land

State Land

Fee Land

All Leases are Held by Production

Scale: 2.5 inches = 1 mile

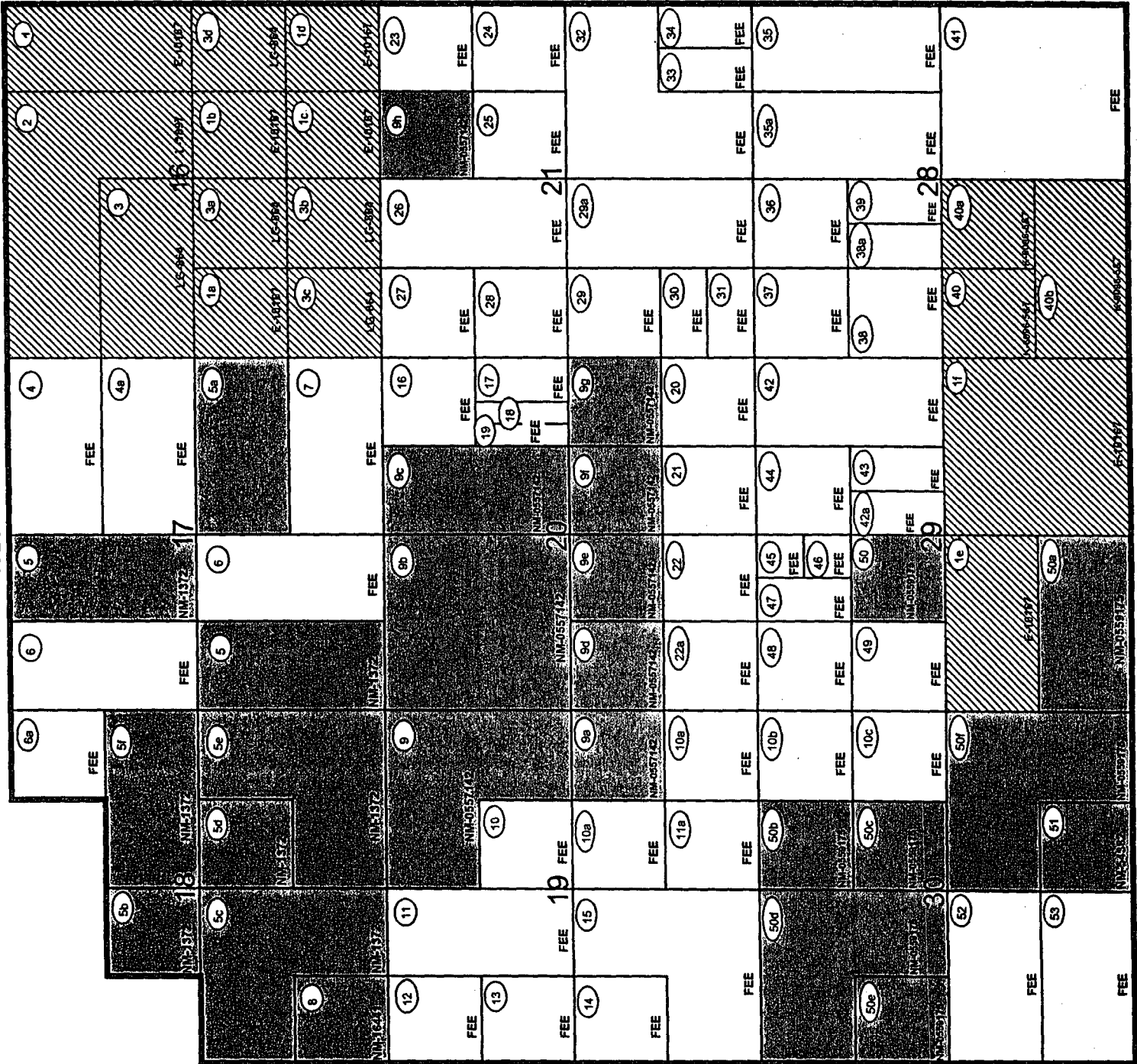


EXHIBIT "F" Accounting Procedure

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 of North America.

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

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. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

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 rate of twelve percent (12%) per annum 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. 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 joint or simultaneous audits 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.

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. **Rentals and Royalties**
Lease rentals and royalties paid by Operator for the Joint Operations.
2. **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.
 - 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 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 2A and 2B of this Section II.
 - D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.
3. **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 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).
4. **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.
5. **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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.
6. **Services**
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii 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.
7. **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 investment not to exceed eight per cent (8%) 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 7A 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.
8. **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.
9. **Legal Expense**
 - A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments 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.
 - B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. 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.

11. 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 Workmen'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.

12. 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 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:

- (XX) 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 2A, 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 () shall not (XX) 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 \$ 5400.00
Producing Well Rate \$ 540.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive 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, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.
- [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 Fields 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 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; 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 total costs if such costs are more than \$25,000.00 but less than \$100,000.00; plus
- B. 3 % of total costs in excess of \$100,000.00 but less than \$1,000,000; plus
- C. 2 % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds 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 where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(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 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

- (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

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "G"
Insurance Provisions

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per employee.
- (B) Public Liability Insurance:
Bodily Injury and Property Damage - \$1,000,000.00 single limit each occurrence.
- (C) Automobile Public Liability Insurance:
Bodily Injury \$500,000.00 each person.
\$1,000,000.00 each occurrence.

Property Damage - \$500,000.00 each accident.

(or)

Bodily Injury and Property Damage - \$1,000,000.00 combined single limit.
- (D) Control of Well and Extra Expense - \$10,000,000.00 - Limit of Liability

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "H"
EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- (1) 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 provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the 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.

- (7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The 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 non-compliance: 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.

CERTIFICATION OF NON-SEGREGATED FACILITIES

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.

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.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001.



February 12, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

**TO: ALL AFFECTED INTEREST OWNERS IN THE NORTH DAGGER DRAW-
UPPER PENNSYLVANIAN UNIT AREA.**

Re: Application of Yates Petroleum Corporation for statutory unitization, of the North Dagger Draw-Upper Pennsylvanian Unit Area, Eddy County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that Yates Petroleum Corporation has filed the enclosed application with the New Mexico Oil Conservation Division seeking an order statutorily unitizing for the purpose of establishing a secondary recovery project, and at a later date a tertiary recovery project, all mineral interests from the top of the Canyon Carbonate formation to the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/ PEF and GR/DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" # 1 well located 660 feet from the North line and 660 feet from the West line of Section 21, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, in the North Dagger Draw-Upper Pennsylvanian Pool, underlying 5612.95 acres, more or less, of Federal, State of New Mexico and Fee lands comprised of the following described acreage:

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

| | |
|-------------------------|--|
| Sections 16 and 17: | All |
| Section 18: | S/2, S/2 NE/4, SE/4 NW/4, NE/4 NE/4 |
| Sections 19 through 21: | All |
| Sections 28 through 30: | All |

A copy of the proposed Unit Agreement and Unit Operating Agreement have previously been provided to you by Yates Petroleum Corporation. Said unit is to be designated the North Dagger Draw-Upper Pennsylvanian Unit.

Among the matters to be considered at the hearing on this application will be the necessity of unit operations; the designation of a unit operator; the determination of the 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 investments in wells and equipment; a non-consent

HOLLAND & HART LLP



penalty for risk to be charged against carried working interest owners within the unit area upon such terms and conditions to be determined by the Division as just and reasonable; 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.

This application has been set for hearing before a Division Examiner on March 4, 2004, at the Oil Conservation Division Hearing Room in its Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, NM 87505. You are not required to attend this hearing but, as the owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging this matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement three days in advance of a scheduled hearing at the Division's Santa Fe Office. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

William F. Carr
Attorney for Yates Petroleum Corporation

Enclosure

cc: Mr. Randy Patterson
Yates Petroleum Corporation

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

**IN THE MATTER OF THE APPLICATION OF
YATES PETROLEUM CORPORATION FOR
STATUTORY UNITIZATION OF THE
NORTH DAGGER DRAW-UPPER
PENNSYLVANIAN UNIT AREA,
EDDY COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

YATES PETROLEUM CORPORATION ("Yates"), 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 unitizing the North Dagger Draw-Upper Pennsylvanian Unit Area, Eddy County, New Mexico, and in support of its application states:

1. Yates Petroleum Corporation is a New Mexico 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 natural gas.

2. Yates seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of a portion of the North Dagger Draw-Upper Pennsylvanian Pool which consists of 5612.95 acres, more or less, of State, Federal and Fee lands located in Eddy County, New Mexico, and is more particularly described as follows:

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

| | |
|-------------------------|--|
| Sections 16 and 17: | All |
| Section 18: | S/2, S/2 NE/4, SE/4 NW/4, NE/4 NE/4 |
| Sections 19 through 21: | All |
| Sections 28 through 30: | All |

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

3. The vertical limits of the unitized formation to be included within the proposed Unit Area extends from an upper limit describe as the top of the Canyon Carbonate formation at a depth of 7,680 feet, to a lower limit of the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/ PEF and GR/ DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" # 1 well located 660 feet from the North line and 660 feet from the West line of Section 21, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico.

4. The portions of the Upper Pennsylvanian reservoir involved in this application have been reasonably defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit area.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization that Yates 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. Yates further states:

- A. Unitized management, operating and further development of the portion of the Upper Pennsylvanian formation, North Dagger Draw-Upper Pennsylvanian Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and, at a later date, tertiary recovery operations, and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
- B. The proposed unitized methods of operations to be applied to this portion of the North Dagger Draw-Upper Pennsylvanian Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and/or gas from the pool, or unitized portions thereof, 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. Yates Petroleum Corporation, as operator, has made a good faith effort to secure voluntary unitization within the portion of the North Dagger Draw-Upper Pennsylvanian 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.

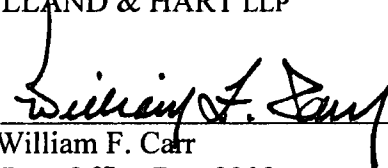
9. Yates requests that any order issued in this case include each matter set forth in NMSA 1978, § 70-7-7 and that it specifically provide for carrying any working interest owner on a limited, carried net profits basis, payable out of production, and include a non-consent penalty for risk to be charged against carried working interests within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

10. Statutory unitization of the North Dagger Draw-Upper Pennsylvanian Unit Area, North Dagger Draw-Upper Pennsylvanian Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Yates Petroleum Corporation respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on March 4, 2004, and, that 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 subject portions of the North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico.

Respectfully submitted,

HOLLAND & HART LLP

By: 
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR YATES PETROLEUM
CORPORATION

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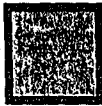
EXHIBIT "A"

YATES PETROLEUM CORPORATION

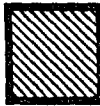
NORTH DAGGER DRAW

UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO



Federal Land



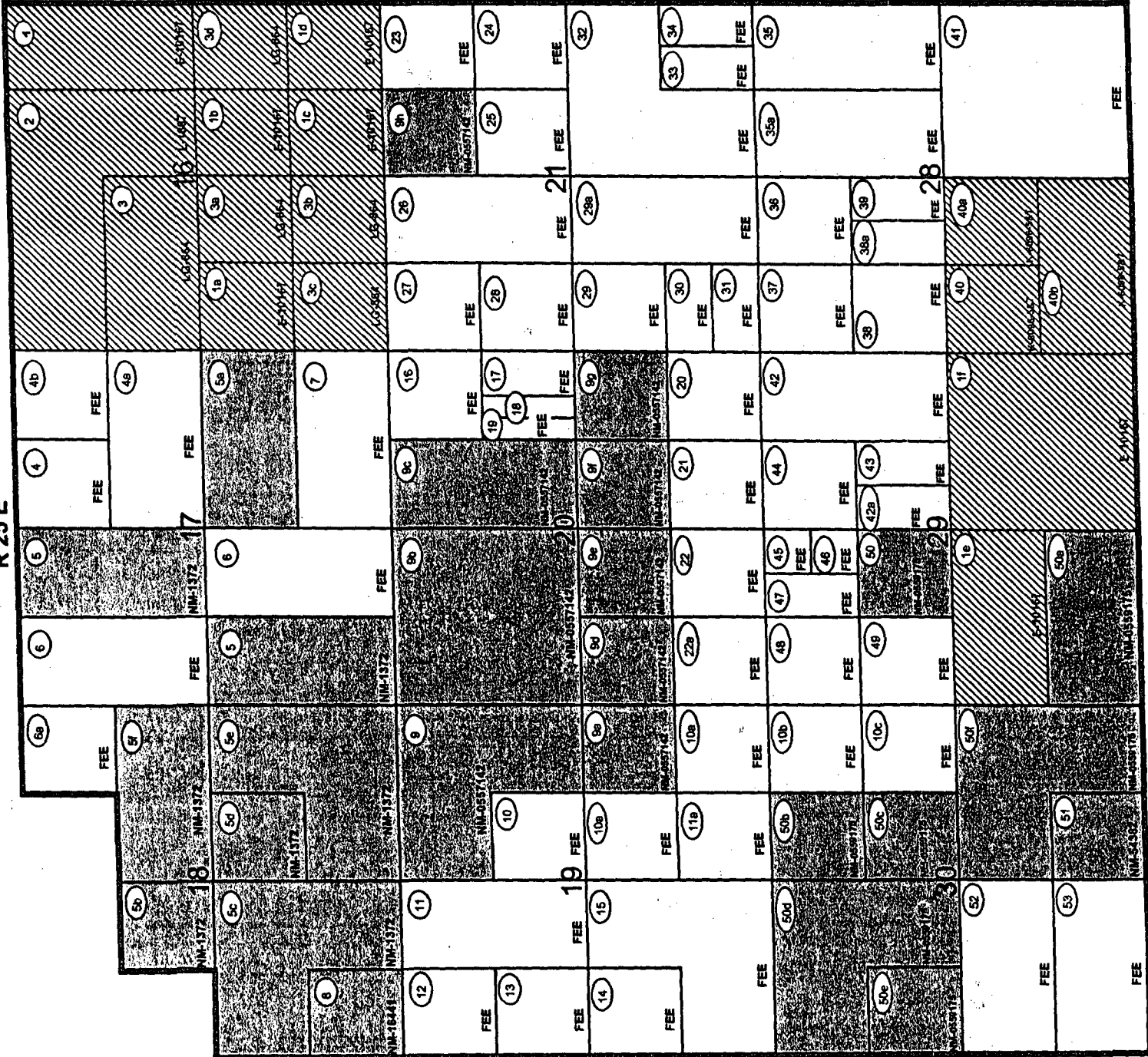
State Land



Fee Land

All Leases are Held by Production

Scale: 2.5 inches = 1 mile



STATE/FEDERAL/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

NORTH DAGGER DRAW UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO

NO. _____

EXHIBIT B

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 2003, 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 Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the 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 5,612.95 acres, more or less, in Eddy County, New Mexico.

(b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

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

(d) "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.

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

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

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

(h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as the top of the Canyon Carbonate formation found at a depth of 7,680 feet, to a lower limit of the base of the Upper Canyon pay at a depth of 8,076 feet as shown on the GR/CNL/LDT/PEF and GR/DUAL LATEROLOG in the Yates Petroleum Corporation Vann "APD" #1 well (located at 660 feet FNL and 660 feet FWL of Section 21, T-19-S, R-25-E, Eddy County, New Mexico).

(i) "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.

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

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

(l) "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.

(m) "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.

(n) "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.

(o) "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.

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

(q) "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, North Dagger Draw Upper Penn Unit, Eddy County, New Mexico".

(r) "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.

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

(t) "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.

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

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

(w) "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.

(x) "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.

(y) "Effective Date" is the date determined in accordance with Section 24, or as re-determined 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. Copies of such revision shall be filed with the Land Commissioner, and 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.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O., Land Commissioner, and the Working Interest Owner of the tract of land to be included, 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. No expansion of the Unit shall be permitted unless the owner of the tract to be included makes application and is in support of an amendment to the Unit Agreement providing for the inclusion of such additional tract, and,

(b) Unit Operator shall circulate such application requesting 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 three 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., Land Commissioner and the Working Interest Owner of the tract of land to be included into the Unit, 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 Land Commissioner, 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 Land Commissioner and A.O. and the Working Interest Owner of the tract of land to be included into the Unit, 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 Land Commissioner and 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. Yates Petroleum Corporation 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, the Land Commissioner 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 Land Commissioner and 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or 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 Land Commissioner and 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., the Land Commissioner 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., the Land Commissioner 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., the Land Commissioner 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. and Commissioner, 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, 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 formula:

$$\text{Tract Participation} = 70\% A + 30\% B$$

A = the Area Ratio based on the ratio of an Owners net acreage divided by the total acreage within the Unit Area.

B = the Reserves Ratio based on the ratio of the total Remaining Primary Barrels of Oil Equivalent as of January 1, 2003 for wells within the Tract as shown in Exhibit "D", divided by the total Remaining Primary Barrels of Oil Equivalent as of January 1, 2003 for wells within the Unit Area. Here Barrels of Oil Equivalent (BOE) is calculated as gas volume in Mcf divided by 6 plus oil volume in STBO. (BOE = STBO + MCF/6)

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 non-subscribing 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 Land Commissioner and 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 Land Commissioner and 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 Land Commissioner and 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. and Land Commissioner) 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 (Non-joinder 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 Land Commissioner and 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 Land Commissioner and 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 Land Commissioner and 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, the A.O. and the Land Commissioner, 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. or Land Commissioner (as the case may be) 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 and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each 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 Land Commissioner and the A.O., or their duly authorized representatives, 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 non-unitized 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., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before _____, 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 Eddy 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 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 Land Commissioner and 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 Eddy 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 Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, 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 Land Commissioner, 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. NONJOINDER AND SUBSEQUENT JOINDER. 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 Land Commissioner and 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 eighty percent (80%) of the Unit Participation then in effect, and approved by the Land Commissioner and 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 Land Commissioner and 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 Land Commissioner or 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 Land Commissioner; and 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 Eddy 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 Eddy 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.

YATES PETROLEUM CORPORATION

By: Randy G. Patterson

Attorney-in-Fact

Date of Execution:

10/24/2003

STATE OF NEW MEXICO)

)ss.

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 24th day of October, 2003, by Randy G. Patterson, Attorney-in-Fact for Yates Petroleum Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

3-1-06

Marian S. Hrolow
Notary Public



R 25 E

T 19 S

EXHIBIT "A"

YATES PETROLEUM CORPORATION

NORTH DAGGER DRAW

UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO

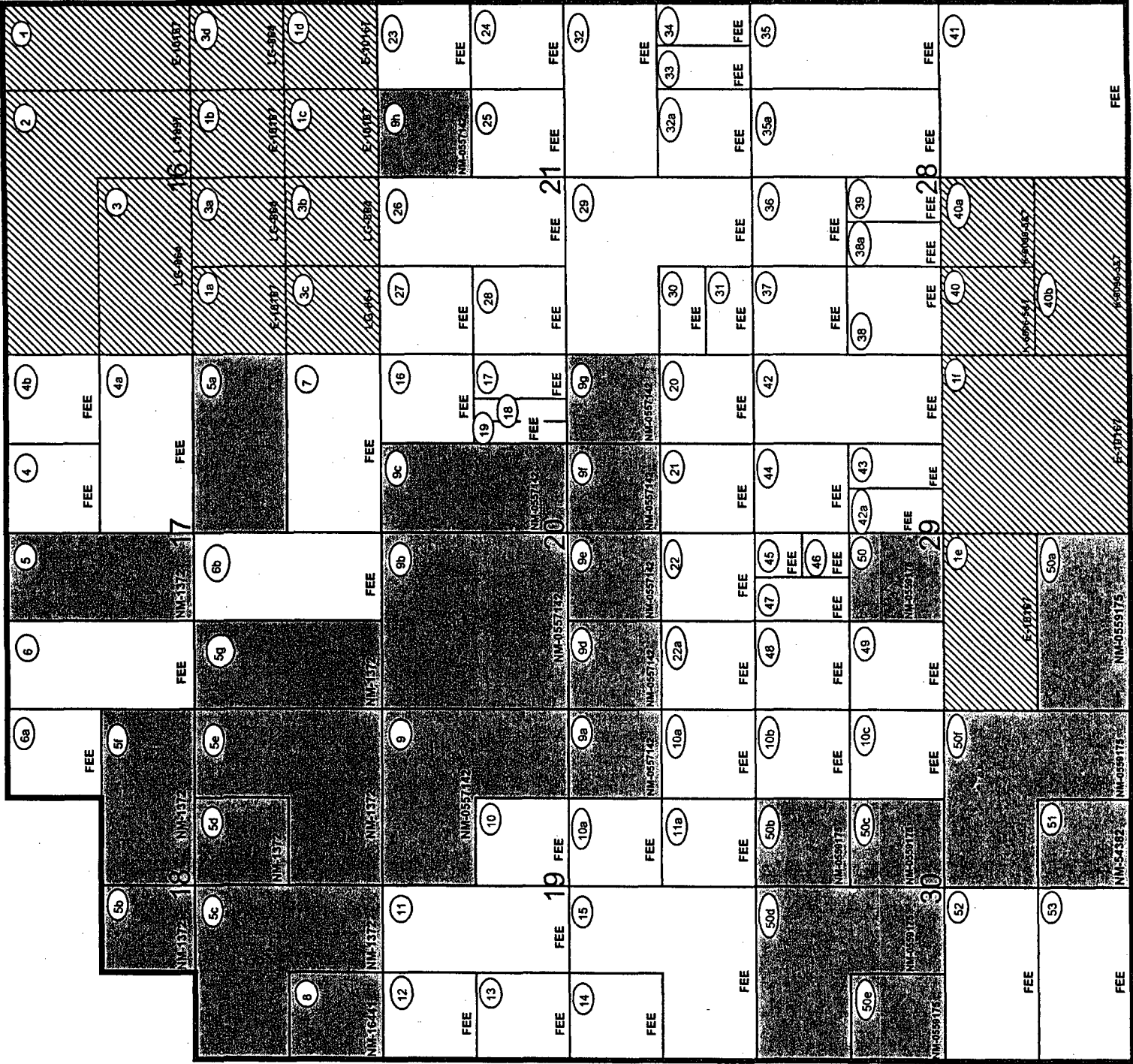
Federal Land

State Land

Fee Land

All Leases are Held by Production

Scale: 2.5 inches = 1 mile



NORTH DAGGER DRAW UPPER PENN UNIT

| | | | | | | | | |
|----|--------|---------|-----|--------|---------|-----|--------|---------|
| 1 | 80.00 | State | 9f | 40.00 | Federal | 35a | 80.00 | Fee |
| 1a | 40.00 | State | 9g | 40.00 | Federal | 36 | 40.00 | Fee |
| 1b | 40.00 | State | 9h | 40.00 | Federal | 37 | 40.00 | Fee |
| 1c | 40.00 | State | 10 | 40.00 | Fee | 38 | 40.00 | Fee |
| 1d | 40.00 | State | 10a | 80.00 | Fee | 38a | 20.00 | Fee |
| 1e | 80.00 | State | 10b | 40.00 | Fee | 39 | 20.00 | Fee |
| 1f | 160.00 | State | 10c | 40.00 | Fee | 40 | 40.00 | State |
| 2 | 160.00 | State | 11 | 80.00 | Fee | 40a | 40.00 | State |
| 3 | 80.00 | State | 11a | 40.00 | Fee | 40b | 80.00 | State |
| 3a | 40.00 | State | 12 | 41.21 | Fee | 41 | 160.00 | Fee |
| 3b | 40.00 | State | 13 | 41.24 | Fee | 42 | 80.00 | Fee |
| 3c | 40.00 | State | 14 | 41.27 | Fee | 42a | 20.00 | Fee |
| 3d | 40.00 | State | 15 | 121.30 | Fee | 43 | 20.00 | Fee |
| 4 | 40.00 | Fee | 16 | 40.00 | Fee | 44 | 40.00 | Fee |
| 4a | 80.00 | Fee | 17 | 20.00 | Fee | 45 | 10.00 | Fee |
| 4b | 40.00 | Fee | 18 | 10.00 | Fee | 46 | 10.00 | Fee |
| 5 | 80.00 | Federal | 19 | 10.00 | Fee | 47 | 20.00 | Fee |
| 5a | 80.00 | Federal | 20 | 40.00 | Fee | 48 | 40.00 | Fee |
| 5b | 40.00 | Federal | 21 | 40.00 | Fee | 49 | 40.00 | Fee |
| 5c | 121.27 | Federal | 22 | 40.00 | Fee | 50 | 40.00 | Federal |
| 5d | 40.00 | Federal | 22a | 40.00 | Fee | 50a | 80.00 | Federal |
| 5e | 120.00 | Federal | 23 | 40.00 | Fee | 50b | 40.00 | Federal |
| 5f | 80.00 | Federal | 24 | 40.00 | Fee | 50c | 40.00 | Federal |
| 5g | 80.00 | Federal | 25 | 40.00 | Fee | 50d | 121.33 | Federal |
| 6 | 80.00 | Fee | 26 | 80.00 | Fee | 50e | 41.35 | Federal |
| 6a | 40.00 | Fee | 27 | 40.00 | Fee | 50f | 120.00 | Federal |
| 6b | 80.00 | Fee | 28 | 40.00 | Fee | 51 | 40.00 | Federal |
| 7 | 80.00 | Fee | 29 | 120.00 | Fee | 52 | 81.37 | Fee |
| 8 | 41.22 | Federal | 30 | 20.00 | Fee | 53 | 81.39 | Fee |
| 9 | 120.00 | Federal | 31 | 20.00 | Fee | | | |
| 9a | 40.00 | Federal | 32 | 80.00 | Fee | | | |
| 9b | 160.00 | Federal | 32a | 40.00 | Fee | | | |
| 9c | 80.00 | Federal | 33 | 20.00 | Fee | | | |
| 9d | 40.00 | Federal | 34 | 20.00 | Fee | | | |
| 9e | 40.00 | Federal | 35 | 80.00 | Fee | | | |

| Lease | Acres | Percent |
|---------|---------|---------|
| Federal | 1805.17 | 32.16% |
| State | 1040.00 | 18.53% |
| Fee | 2767.78 | 49.31% |
| Total | 5612.95 | 100.00% |

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
SCHEDULE SHOWING ALL LANDS AND LEASES WITHIN THE NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

SUSAN VIERRA
2/19/04

| TR # | TRACT ACRES | DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|------|-------------|---|------------|--|---------------------------------|------------------------------|-----------------------------------|--|--|
| 1 | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: E/2NE/4 | 80.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | YATES PETROLEUM CORPORATION | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 1a | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: NW/4SW/4 | 40.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. ELSIE G. HOLDEN, TESTAMENTARY GENDRON, J. W. GOODNOW, DAVID HODGE, JOSEPH R. HODGE, SANFORD J., III KAWASAKI, DR. ISAAC A. KELLER, BETSY H. MOORE, CHARLES CLINE NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST SCHUMAN, ADOLPH P. SPACE BUILDING CORPORATION UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES PETROLEUM CORPORATION | 0.099103 0.099103 0.099103 0.046511 0.148654 0.099103 0.016517 0.016517 0.099103 0.046511 0.247757 0.099103 0.099103 0.099103 0.247757 34.832580 0.099103 59.431815 |
| 1b | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: NW/4SE/4 | 40.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 0.033140 0.033140 0.033140 0.016570 0.008524 0.016570 37.820133 0.033140 24.522231 0.033140 37.853772 |
| 1c | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: SW/4SE/4 | 40.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 0.033004 0.033004 37.500000 0.033004 0.033004 0.062586 24.443824 0.033004 37.808320 |
| 1d | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: SE/4SE/4 | 40.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 0.033123 0.033123 0.033123 0.005521 37.801442 0.033123 0.062586 24.510048 0.033123 37.834565 |
| 1e | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 29: N2/5W/4 | 80.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 25.000000 75.000000 OPERATING AGREEMENT BOYD X STATE COM #2 SECTION 29: SW/4 402-104-E |
| 1f | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 29: SE/4 | 160.000000 | E-10187, MONSANTO COMPANY NM-402-104 STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 50.000000 50.000000 OPERATING AGREEMENT BOYD X ST 3 SECTION 29: SE/4 |
| 2 | 160.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: W/2NE/4, N2NW/4 | 160.000000 | L-1897, COQUINA OIL, ETAL NM-402-104-A STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 3 | 80.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: S/2NW/4 | 80.000000 | LG-864, COQUINA OIL, ETAL NM-402-104-B STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NONE | 100.000000 OPERATING AGREEMENT BOYD X SECTION 16: N2 402-104-C 2-11-1974 |
| 3a | 40.00 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N1/4 SECTION 16: NE/4SW/4 | 40.000000 | LG-864, COQUINA OIL, ETAL NM-402-104-B STATE - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | NORMAN, ELIZABETH J., TRUSTEE | 0.099103 0.099103 0.099103 OPERATING AGREEMENT AMOLE AMN ST COM 1 402-104-C 2-11-1974 |

| TRACT # | DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERSIGHT ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | | | |
|---------|---|--------|--|--|--|--|---|--|---|--|--|
| 5 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 17: E2NW/4 | 160.00 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | QUETICO SUPERIOR FOUNDATION / CONOCO FEE - HBP MARSHALL & WINSTON, INC. / CONOCO | 100.000000 100.000000 | 0.878910 0.280410 0.073240 0.073240 1.640530 0.585940 0.878910 0.107420 0.058590 0.073240 0.585940 0.039620 0.097860 0.214840 0.104170 0.107420 0.193300 0.073240 0.781250 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781250 0.425780 0.141820 0.141820 0.743450 1.502500 0.141820 3.125000 3.125000 0.970346 3.906240 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWUO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041700 1.041700 2.083300 93.750000 1.041700 | OPERATING AGREEMENT CONOCO, INC. JENNY COM 1, 2 SECTION 17: NW/4 4-1-1983 |
| 5a | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 17: N2SE/4 | 80.00 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | MINERALS MANAGEMENT SERVICE | 8.330000 8.330000 8.330000 16.670000 8.330000 50.000000 | 12.500000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.781250 0.425780 0.141820 0.141820 0.743450 1.502500 0.141820 3.125000 3.125000 0.970346 3.906240 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWUO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 1.041700 1.041700 1.041700 2.083300 93.750000 1.041700 | OPERATING AGREEMENT CONOCO, INC. SECTION 17: SE/4 4-1-1983 |
| 5b | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 18: SE/4NW/4 | 40.00 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | MINERALS MANAGEMENT SERVICE | 8.330000 8.330000 16.670000 8.330000 50.000000 | 12.500000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.488750 0.150250 0.150250 0.743460 1.502500 0.150250 3.125000 3.125000 1.162950 2.343750 | YATES PETROLEUM CORPORATION | 100.000000 | OPERATING AGREEMENT SECTION 18: NW/4 JOHNSTON / HANKS (SEE D O OPINION) 401-208-G 1-18-1871 |
| 5c | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 18: LOT 3 (NW/4SW/4), E/2SW/4 | 121.27 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | MINERALS MANAGEMENT SERVICE | 8.330000 8.330000 16.670000 8.330000 50.000000 | 12.500000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.488750 0.150250 0.150250 0.743460 1.502500 0.150250 3.125000 3.125000 1.162950 2.343750 | YATES PETROLEUM CORPORATION | 100.000000 | |
| 5d | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 18: NW/4SE/4 | 40.00 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | MINERALS MANAGEMENT SERVICE | 8.330000 8.330000 16.670000 8.330000 50.000000 | 12.500000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.488750 0.150250 0.150250 0.743460 1.502500 0.150250 3.125000 3.125000 1.162950 2.343750 | ESTATE OF LILLIE M. YATES SHARBR OIL LIMITED COMPANY TRUST Q UWUO PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. | 8.333333 8.333334 8.333333 16.666666 50.000000 8.333334 | |
| 5e | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NW/4, SECTION 18: NE/4SE/4, S2SE/4 | 120.00 | NM-1372 L. C. JOHNSON NM-401-209 FEDERAL - HBP | MINERALS MANAGEMENT SERVICE | 8.330000 8.330000 16.670000 8.330000 50.000000 | 12.500000 | BATES, SELMA L. CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LEA CORPORATION LIPSCOMB, CELESTE CHAMBERS PAYNE-JOHNSTON MANAGEMENT, INC. #1 PAYNE-JOHNSTON MANAGEMENT, INC. #2 PROBANDT, W. T. ROUTH, A. M. | 0.488750 0.150250 0.150250 0.743460 1.502500 0.150250 3.125000 3.125000 1.162950 2.343750 | YATES PETROLEUM CORPORATION | 100.000000 | |

| TR # | TRACT DESCRIPTION ACRES OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | | |
|------|--|--------|---|---|--|--|---|---|---|--|
| 7 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 17: S2SE4 | 90.00 | ROY E. GLASS, ETUX NM-403-SB FEE - HBP | YATES PETROLEUM CORPORATION YATES DRILLING COMPANY SHARBO OIL LIMITED COMPANY ESTATE OF LILLIE M. YATES YATES, JOHN A. TRUST Q.UW/O PEGGY A. YATES YATES PETROLEUM CORPORATION YATES DRILLING COMPANY SHARBO OIL LIMITED COMPANY ESTATE OF LILLIE M. YATES YATES, JOHN A. TRUST Q.UW/O PEGGY A. YATES YATES PETROLEUM CORPORATION | 75.000000 8.333333 4.166667 4.166667 4.166667 75.000000 8.333333 4.166667 4.166667 4.166667 100.000000 | 0.073240 0.195320 0.439440 0.104160 0.104160 0.214840 0.390320 0.520840 0.097860 0.130200 0.086000 0.195320 0.439440 0.073240 0.146480 0.036620 0.195320 0.195320 0.214840 0.130200 0.130200 0.195320 0.195320 0.097860 3.125000 0.585940 0.073240 0.260420 0.520840 0.878900 0.290400 0.073240 1.606940 0.585940 0.878920 0.107420 0.058600 0.073240 0.585940 0.097860 0.214840 0.104160 0.107420 0.195300 0.073240 0.781240 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. CURRY, FLORENCE M. ESSLAM DAWSON, NEVA CHAMBERS ESSMAN, JAMES H. FREEMAN, ALICE ANN HANKS HUNTINGTON ENERGY, LLC LIPSCOMB, CELESTE CHAMBERS OSCURA RESOURCES, INC. PROBANT, WYATT ROBERTS, MIKE H. HOWELL, SHIRLEY M. KINCAID, HUGH M. LANDSHEFT, RICHARD H., JR. LANDSHEFT, WILLIAM BRIAN LANGFORD, JEFFERSON MILNER LANGFORD, LOU ANN LANGFORD, ROBERT GLASS MARPOOD, EDDIE M. & VALERIE MARSHALL & WINSTON, INC. MARSHALL, CHARIBEL Y. TRUST MCCAW, WILLIAM JACK MCDONALD, JACK SCOTT MCDONALD, JAMES C., JR. MCQUIDDY COMM. & ENERGY, INC. MEDFORD, CYDNEY MCDONALD PATTERSON, RANDY G. PHILLIPS, DON & ASSOCIATES QUETICO SUPERIOR FOUNDATION R. R. HINKLE COMPANY, INC. RABURN, MARGARET SWOPE RAND, HELEN CHASE TRUST RIDDLE, MARY G. ROCHE, GAYLE GLASS SARTORI, JENNA HINKLE SAUNDERS, ALLISON CLAIRE C. SCHAFER, THELMA M. SCOTT, KENNA CARTER SWOPE, JAMES R. TURNER, GAYLE ELIZABETH L. VAN WINKLE, JOANNE D. MINERALS MANAGEMENT SERVICE | ESTATE OF LILLIE M. YATES SHARBO OIL LIMITED COMPANY TRUST Q.UW/O PEGGY A. YATES YATES DRILLING COMPANY YATES PETROLEUM CORPORATION YATES, JOHN A. 0.425780 0.141800 0.093760 0.141800 0.093760 0.257350 0.031280 0.141800 0.082520 0.618760 0.093760 0.141800 0.073240 0.146480 0.036620 0.195320 0.195320 0.214840 0.130200 0.130200 0.195320 0.195320 0.097860 3.125000 0.585940 0.073240 0.260420 0.520840 0.878900 0.290400 0.073240 1.606940 0.585940 0.878920 0.107420 0.058600 0.073240 0.585940 0.097860 0.214840 0.104160 0.107420 0.195300 0.073240 0.781240 | 1041700 1041700 1041600 2083300 93.750000 1041700 | OPERATING AGREEMENT CONOCO, INC. SECTION 17: SE/4 4-1-1983 |
| 8 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 18: LOT 4 (SW4SW4) | 41.22 | NM-16411, CONOCO, INC. FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS HUNTINGTON ENERGY, LLC LIPSCOMB, CELESTE CHAMBERS OSCURA RESOURCES, INC. ROBERTS, MIKE H. | YATES PETROLEUM CORPORATION | 100.000000 | |
| 9 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 19: N2NE/4, SE/4NE/4 | 120.00 | NM-0557142, OCOTILLO PETROLEUM NM-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | JUDSON PROPERTIES, LTD KOCHERGEN ENTERPRISES FAMILY LAUCK, STEPHEN E. MARTIN LIVING TRUST CONE, TOM R. JUDSON PROPERTIES, LTD KOCHERGEN ENTERPRISES FAMILY LAUCK, STEPHEN E. MARTIN LIVING TRUST | YATES PETROLEUM CORPORATION | OPERATING AGREEMENT ROSS EG FED COM #2 SECTION 19: NE/4 401-202-J 5-20-1986 | |
| 9a | TOWNSHIP 19 SOUTH, RANGE 25 EAST, N4PM SECTION 19: NE4SE/4 | 40.00 | NM-0557142, OCOTILLO PETROLEUM NM-401-202 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | ADVENSHINE CHILDRENS CONE, KATHLEEN TRUST, DEC'D (BOO) CONE, KATHLEEN TRUST, DEC'D (KGC) CONE, KENNETH G. CONE, RANDY LEE EXPLORES PETROLEUM CORP. HARVEY E. YATES COMPANY JALAPENO CORPORATION MCCOWN, CATHIE CONE OZARK EXPLORATION, INC. SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES ENERGY CORPORATION | YATES PETROLEUM CORPORATION | OPERATING AGREEMENT PARISH IV COM #1 SECTION 19: SE/4 401-202-S 6-13-1988 | |

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| TR # | TRACT DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | | | | |
|------|---|---|--|---|---|--|--|--|---|--|--|--|
| 27 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NNPM SECTION 21: NW/4NW/4 | 2.500000 2.500000 40.000000 | UNLEASED MINERALS UNLEASED MINERALS MARY LEE JONES FEE - HBP | CHARLES H. COLL JOHN F. COLL ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 100.000000 100.000000 20.000000 20.000000 20.000000 40.000000 | HINKLE, MADISON M. HINKLE, ROLLA R. III NUEVO SEIS, LIMITED OSCURA RESOURCES, INC. SCHERTZ, MORRIS E. | ABO PETROLEUM CORPORATION BLANTON, KIMBERLY STEWART COLL. CHARLES H. COLL. CHRISTOPHER DALE COLL. CLARKE C. COLL. ERIC J. COLL. JON F. II COLL. KENNETH JAMES COLL. MAX W. II COLL. MAX W. III COLL. MICHAEL T. COLL. RICHARD KEITH COLL. SALLY ROGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 7.500000 0.260417 1.562500 0.260417 0.703125 0.703125 0.371879 0.260416 0.837500 0.022344 0.260417 0.260416 0.625000 0.022344 0.260416 2.083334 2.083333 2.083333 7.500000 5.468750 0.781250 6.770833 0.260416 6.250000 7.500000 45.208335 | OPERATING AGREEMENT HOOPER AMP #2 SECTION 21: NW/4 4-14-1983 403-487-U2 | | | |
| 28 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NNPM SECTION 21: SW/4NW/4 | 5.000000 | COOPER, PATRICIA JOHNSON NM-403-1723 FEE - HBP | ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION SPIRAL, INC. S. P. YATES S. P. YATES RICHARD B. LODEWICK JOHN W. LODEWICK LAURA PATRICIA LODEWICK LODEWICK ENERGY, INC. | 10.000000 10.000000 10.000000 70.000000 10.000000 10.000000 10.000000 70.000000 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 100.000000 | HOOPER, ROBERT G. JOHNSON, S. P. III & BARBARA J. PJC LIMITED PARTNERSHIP SPIRAL, INC. | 0.250000 3.000000 3.000000 3.125000 NONE | ABO PETROLEUM CORPORATION BLANTON, KIMBERLY STEWART COLL. CHARLES H. COLL. CHRISTOPHER DALE COLL. CLARKE C. COLL. ERIC J. COLL. JON F. II COLL. KENNETH JAMES COLL. MAX W. II COLL. MAX W. III COLL. MICHAEL T. COLL. RICHARD KEITH COLL. SALLY ROGERS DETEMPLE, MELANIE COLL ESTATE OF LILLIE M. YATES HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 7.500000 0.260417 1.562500 0.260417 0.703125 0.703125 0.371879 0.260416 0.837500 0.022344 0.260417 0.260416 0.625000 0.022344 0.260416 2.083334 2.083333 2.083333 7.500000 5.468750 0.781250 6.770833 0.260416 6.250000 7.500000 45.208335 | OPERATING AGREEMENT HOOPER AMP #2 SECTION 21: NW/4 4-14-1983 403-487-U2 | | |
| 29 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NNPM SECTION 21: NW/4SW/4, E2SW/4 | 2.500000 17.500000 5.000000 2.500000 2.500000 | NIXON, C. R., JR. ETAL NM-103-246 FEE - HBP ROSS, CARL E. / ROGER HANKS NM-403-487 FEE - HBP HILDT, LENA W., ETAL NM-403-487-C FEE - HBP ROSS, JOE E. / ROGER HANKS NM-403-487-E FEE - HBP ROSS, ALTON / ROGER HANKS NM-403-487-G FEE - HBP POWELL, BONNIE / ROGER HANKS NM-403-487-H FEE - HBP | SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY ESTATE OF LILLIE M. YATES ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. SHARBRO OIL LIMITED COMPANY TRUST Q UNWO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNWO PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY | 50.000000 25.000000 25.000000 16.666667 16.666667 8.333333 8.333333 33.333334 100.000000 16.666667 16.666667 8.333333 8.333333 33.333334 100.000000 16.666667 16.666667 8.333333 8.333333 33.333334 16.666667 16.666667 8.333333 8.333333 33.333334 | DEVON ENERGY PRODUCTION CO., LP GOOD EARTH MINERALS, LLC HEARD, MYRTLE HICKAM, JEWEL T. MARSHALL & WINSTON, INC. MATLOCK MINERALS LIMITED COMPANY NEARBURG EXPLORATION COMPANY PANHANDLE ROYALTY COMPANY POWELL, BONNIE ROSS FAMILY LIVING TRUST ROSS, BERT A. & OLETA F. ROSS, GARY ROSS, J. T. ROSS, JOE E. ROSS, RALPH ROSS, ROBERT ROSS, RONALD ROSS, WILLIAM SHEETS, ELIZABETH RUTH NIXON WEDDERBURN PROPERTIES, LLC | 1.171880 0.444879 0.260417 1.562500 0.444879 0.781250 7.031250 0.260417 0.401042 0.302773 0.260417 0.238979 0.260417 0.260417 0.238979 0.238979 0.238979 0.193133 0.193133 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. CURRY, FLORENCE M. ESSMAN DANSON, NEVA CHAMBERS ESSMAN, JAMES H. FREEMAN, ALICE ANN HANKS HUNTINGTON ENERGY, LLC LIPSCOMBE, CELESTE CHAMBERS OSCURA RESOURCES, INC. PROBANDT, W. T. & JEANETTE J. ROBERTS, MIKE H. | 0.126847 0.042220 0.312507 0.042220 0.312507 0.185693 0.104173 0.042220 0.208320 0.302773 0.312493 | ABO PETROLEUM CORPORATION BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. COLL. CHARLES H. COLL. CLARKE C. COLL. ERIC J. COLL. JON F. COLL. MAX W. II COLL. MAX W. III COLL. MICHAEL T. DETEMPLE, MELANIE COLL HOLLYHOOK, LTD LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SHARBRO OIL LIMITED COMPANY SPIRAL, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 3.126847 0.016520 0.016520 0.016520 2.343750 1.054690 1.054690 2.343750 0.167330 1.406250 0.033520 0.837500 0.033520 1.171880 0.553380 0.008260 0.390920 0.024780 0.016520 0.000960 0.002750 1.041680 0.016520 0.008260 1.041680 1.041680 0.041290 3.125000 5.968680 | OPERATING AGREEMENT HOOPER AMP #1 SECTION 21: SW/4 2-19-1983 403-487-U |

| TR # | TRACT DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSOR OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE | |
|------|---|-------|---|---|---|--|---|---|--|
| 30 | TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM SECTION 21: NZSW/4SW/4 | 20.00 | HICKAM, JEWELL / ROGER HANKS NM-403-487-1 FEE - HBP | YATES, JOHN A. ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNW/O PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. ABO PETROLEUM CORPORATION SHARBRO OIL LIMITED COMPANY TRUST Q UNW/O PEGGY A. YATES ESTATE OF LILLIE M. YATES YATES DRILLING COMPANY YATES, JOHN A. YATES PETROLEUM CORPORATION | 8.333333 16.666666 16.666667 8.333333 16.666667 33.333334 8.333333 16.666666 8.333333 16.666667 33.333334 8.333333 100.000000 | | OLIVER, WILLIAM B. TRUST PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SCHUMAN, ADOLPH P. SHARBRO OIL LIMITED COMPANY SPACE BUILDING CORPORATION SPIRAL, INC. UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 0.016520 1.171860 3.906250 0.016520 0.390625 0.010320 3.125000 12.221960 0.016520 3.125000 48.975320 | |
| | | | MORRISON, BONNIE H. CROSS TIMBERS NM-403-1813-A FEE - HBP | ABO PETROLEUM CORPORATION | 10.000000 | | ABO PETROLEUM CORPORATION | 3.125000 | |
| | | | FANHANDLE ROYALTY COMPANY NM-403-1717 FEE - HBP | ABO PETROLEUM CORPORATION | 10.000000 | | BELLO, ERNIE | 0.016517 | |
| | | | KERR-MCGEE CORPORATION NM-403-1813 FEE - HBP | ABO PETROLEUM CORPORATION | 10.000000 | | BROWN BROTHERS HARRIMAN TRUST | 0.016517 | |
| | | | MARSHALL & WINSTON, INC. UNLEASED MINERALS UNLEASED MINERALS UNLEASED MINERALS UNLEASED MINERALS UNLEASED MINERALS | NEARBURG EXPLORATION COMPANY MAX W. COLL II JAMES N. COLL CHARLES H. COLL JON F. COLL | 100.000000 100.000000 100.000000 100.000000 100.000000 | | BUNN, FRANCES B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY RODGERS DETEMPLE, MELANIE COLL E. G. L. RESOURCES, INC. ELSIE G. HOLDEN, TESTAMENTARY ESTATE OF LILLIE M. YATES GENDRON, J. W. GOODNOW, DAVID HODGE, SANFORD J., III HOLLYHOOK, LTD KAWASAKI, DR. ISAAC A. KELLER, BETSY H. LODEWICK, JOHN W. LODEWICK, LAURA PATRICIA MOORE, CHARLES CLINE MYCO INDUSTRIES, INC. NEARBURG EXPLORATION COMPANY OLIVER, WILLIAM B. TRUST PITCH ENERGY CORPORATION SACRAMENTO PARTNERS LIMITED SCHUMAN, ADOLPH P. SHARBRO OIL LIMITED COMPANY SPIRAL, INC. UNIT PETROLEUM COMPANY VAN VRANKEN, FREDERICK, JR. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 3.125000 0.016517 0.016517 2.343750 1.054687 1.054687 2.343750 0.187343 1.406250 0.03517 0.837500 0.03516 0.553386 0.00259 0.390625 0.024776 0.016517 0.02753 1.041660 0.016517 0.00259 1.041670 1.041670 0.041263 3.125000 5.985883 0.016517 1.171860 3.906250 0.016517 0.390625 12.221962 0.016517 3.125000 50.158213 | OPERATING AGREEMENT HOOPER AMP #1 SECTION 21: SW/4 403-487-J 2-18-1983 |
| | | | S. P. JOHNSON, III & BARBARA J. TR NM-403-1723-A FEE - HBP | HOOPER, ROBERT G. JOHNSON, S. P. III & BARBARA J. P/C LIMITED PARTNERSHIP SPIRAL, INC. | 0.250000 3.000000 3.125000 | NONE | ABO PETROLEUM CORPORATION | | |
| | | | PATRICIA JOHNSON COOPER NM-403-1723 FEE - HBP | MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. JOHN W. LODEWICK JOHN W. LODEWICK RICHARD B. LODEWICK LODEWICK ENERGY, INC. LAURA PATRICIA LODEWICK | 10.000000 10.000000 70.000000 10.000000 10.000000 10.000000 70.000000 100.000000 100.000000 100.000000 100.000000 100.000000 | | | | |
| 31 | TOWNSHIP 18 SOUTH, RANGE 25 EAST, NMPM SECTION 21: SZSW/4SW/4 | 20.00 | WIGGINS, ANDREA C. NM-404-120 MINERALS METCALF, LORENE / COQUINA NM-487-R FEE - HBP | YATES PETROLEUM CORPORATION ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC. YATES DRILLING COMPANY YATES PETROLEUM CORPORATION | 100.000000 25.000000 25.000000 25.000000 | HODGE, JOSEPH R. NORMAN, RICHARD C. SPACE BUILDING CORPORATION | ABO PETROLEUM CORPORATION BELLO, ERNIE BROWN BROTHERS HARRIMAN TRUST BUNN, FRANCES B. COLL, CHARLES H. COLL, CLARKE C. COLL, ERIC J. COLL, JON F. COLL, JON F. II COLL, MAX W. II COLL, MAX W. III COLL, SALLY RODGERS DETEMPLE, MELANIE COLL E. G. L. RESOURCES, INC. ELSIE G. HOLDEN, TESTAMENTARY ESTATE OF LILLIE M. YATES GENDRON, J. W. GOODNOW, DAVID | 3.125000 0.016517 0.016517 2.343750 1.054687 1.054687 2.343750 0.187343 1.406250 0.03517 0.837500 0.03516 0.553386 0.00259 0.390625 0.024776 0.016517 0.02753 1.041660 0.016517 0.00259 1.041670 1.041670 0.041263 3.125000 5.985883 0.016517 1.171860 3.906250 0.016517 0.390625 12.221962 0.016517 3.125000 50.158213 | OPERATING AGREEMENT HOOPER AMP #1 SECTION 21: SW/4 403-487-J 2-18-1983 |

| TR # | TRACT DESCRIPTION ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|------|--|--|--|--|--------------------------------------|--|---|
| 504 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 28: S2SW4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 505 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: NW4NE4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 506 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: SW4NE4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 507 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: LOT 1 (NW4NW4), E2NW4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 508 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: LOT 2 (SW4NW4) | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 509 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: N2SE4, SE4SE4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | YATES PETROLEUM CORPORATION | 100.000000 | 12.500000 | BETTY ANDERSON ASPDEN FAMILY CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS FREEMAN, ALICE ANN HANKS LIPSCOMBE, CELESTE CHAMBERS PROBANT, W. T. YATES PETROLEUM CORPORATION | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 51 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: SW4SE4 | NM-0559175, BETTY A. ASPDEN NM-401-180 FEDERAL - HBP | NEARBURG EXPLORATION COMPANY | 100.000000 | 12.500000 | NONE | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |
| 52 | TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM SECTION 30: LOT 3 (NW4SW4), NE4SW4 | S. P. JOHNSON, III, ETAL NM-403-22 FEE - HBP | CATHIE CONE MCCOWN AUVERSHINE CHILDRENS KATHLEEN CONE TRUST DOUGLAS L. CONE | 2.142224 1.142225 1.142224 1.142224 | 9.375000 9.375000 | CHAMBERS, LOLLIE DEE KING, ESTATE CHAMBERS, ROBERT E., JR. DAWSON, NEVA CHAMBERS LIPSCOMBE, CELESTE CHAMBERS | NEARBURG EXPLORATION COMPANY SPIRAL, INC. VOIGT, WILMA EVELYN YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION YATES PETROLEUM CORPORATION BOYD X STATE COM #2 SECTION 28: SW4 402-104-E |

| TR # | TRACT DESCRIPTION OF LANDS | ACRES | SERIAL NUMBER AND EXPIRATION DATE | LESSEE OF RECORD AND PERCENTAGE | BASIC ROYALTY AND PERCENTAGE | OVERRIDING ROYALTY AND PERCENTAGE | WORKING INTEREST AND PERCENTAGE | REFERENCE |
|------|--|----------|--|---|---|-----------------------------------|---------------------------------|--|
| | | | | CLIFFORD CONE CLIFFORD CONE FAMILY TRUST TOM R. CONE KENNETH G. CONE KATHLEEN CONE TRUST D C TRUST, MARILYN J. CONE MARATHON OIL COMPANY SACRAMENTO PARTNERS LIMITED SPIRAL, INC. YATES PETROLEUM CORPORATION | 1.142224 1.142224 1.142224 1.142224 1.142224 1.142224 0.648063 1.438384 85.050608 2.142224 | PROBANT, W. T. & JEANETTE J. | 0.824080 | 0.198867 403-22-E 4-15-1987 0.596801 0.596801 0.755592 0.755592 94.891210 |
| 33 | TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM SECTION 30; LOT 4 (SW1/4SW1/4), SE1/4SW1/4 | 4.066500 | S. P. JOHNSON, III, ETAL NM-403-22 FEE - HBP | CATHIE CONE MCCOWN AUVENTSHINE CHILDRENS KATHLEEN CONE TRUST DOUGLAS L. CONE CLIFFORD CONE CLIFFORD CONE FAMILY TRUST TOM R. CONE KENNETH G. CONE KATHLEEN CONE TRUST D C TRUST, MARILYN J. CONE MARATHON OIL COMPANY SACRAMENTO PARTNERS LTD SPIRAL, INC. YATES PETROLEUM CORPORATION | 0.937500 < | | | |

EXHIBIT C
SCHEDULE SHOWING UNIT PARTICIPATION OF EACH WORKING INTEREST OWNER
PAGE 1 OF 2

| OWNER NAME | UNIT PARTICIPATION |
|-----------------------------------|--------------------|
| ABO PETROLEUM CORPORATION | 1.535016 |
| BP AMERICA PRODUCTION COMPANY | 0.060826 |
| MCCOWN, CATHIE CONE | 0.083703 |
| AUVENSHINE CHILDREN'S | 0.100862 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 0.067243 |
| BELLO, ERNIE | 0.005115 |
| BLANTON, KIMBERLY STEWART | 0.014039 |
| BROWN BROTHERS HARRIMAN TRUST | 0.004346 |
| BUNN, FRANCES B. | 0.005115 |
| BUNN, ROBERT B. | 0.002608 |
| COLL, CLARKE C. | 0.090069 |
| COLL, ERIC J. | 0.090069 |
| COLL, CHARLES H. | 0.200151 |
| COLL, CHRISTOPHER DALE | 0.014039 |
| COLL, KENNETH JAMES | 0.014039 |
| COLL, MICHAEL T. | 0.014039 |
| COLL, RICHARD KEITH | 0.014039 |
| COLL, SALLY RODGERS | 0.080057 |
| COLL, JON F. | 0.115922 |
| COLL, JON F. II | 0.028329 |
| COLL, MAX W. II | 0.120090 |
| COLL, MAX W. III | 0.002864 |
| CONE, RANDY LEE | 0.033621 |
| CONE, TOM R. | 0.076537 |
| CONE, KENNETH G. | 0.095039 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 0.100862 |
| COLUMBIA RIVER RESOURCES, INC. | 0.074243 |
| DETEMPLE, MELANIE COLL | 0.002864 |
| DEVON ENERGY PRODUCTION CO., LP | 0.026739 |
| E. G. L. RESOURCES, INC. | 0.117871 |
| EXPLORERS PETROLEUM CORP. | 0.067241 |
| F & J ENERGY PARTNERS, LTD. | 0.080543 |
| FIRST ROSWELL COMPANY | 0.055737 |
| OLIVER, WILLIAM B. TRUST | 0.005077 |
| GFB ACQUISITION - 1, LP | 0.114987 |
| GENDRON, J. W. | 0.003210 |
| GOODNOW, DAVID | 0.002159 |
| HANSON-MCBRIDE PETROLEUM CO. | 0.104975 |
| HODGE, JOSEPH R. | 0.000269 |
| HODGE, SANFORD J. III | 0.000576 |
| ELSIE G. HOLDEN, TESTAMENTARY | 0.001319 |
| HOLLYHOCK, LTD | 0.325241 |
| JALAPENO CORPORATION | 0.101898 |
| JOHNSON, S. P. III & BARBARA J. | 0.067337 |
| KAWASAKI, DR. ISAAC A. | 0.002106 |
| KELLER, BETSY H. | 0.001319 |
| LANGDALE CORPORATION | 0.040393 |
| LODEWICK, JOHN W. | 0.325242 |

EXHIBIT C
SCHEDULE SHOWING UNIT PARTICIPATION OF EACH WORKING INTEREST OWNER
PAGE 2 OF 2

| OWNER NAME | UNIT PARTICIPATION |
|------------------------------|--------------------|
| LODEWICK, LAURA PATRICIA | 0.325242 |
| MARKS OIL INC. | 0.075691 |
| MARSHALL & WINSTON, INC. | 0.074708 |
| MEWBOURNE, CURTIS W. | 0.161573 |
| MOORE, CHARLES CLINE | 0.004128 |
| MOORE, MICHAEL HARRISON | 0.012154 |
| MOORE, RICHARD L. | 0.012154 |
| MOORE, STEPHEN SCOTT ESTATE | 0.012154 |
| MYCO INDUSTRIES, INC. | 1.625054 |
| NEARBURG EXPLORATION COMPANY | 9.436103 |
| OZARK EXPLORATION, INC. | 0.525327 |
| OZARK (GAS) / ALTURA (OIL) | 0.530185 |
| PJC LIMITED PARTNERSHIP | 0.067337 |
| PANHANDLE ROYALTY COMPANY | 0.434066 |
| PITCH ENERGY CORPORATION | 0.127640 |
| REYNOLDS, FRED N. | 0.080543 |
| RUTHEA, INC. | 0.040393 |
| SACRAMENTO PARTNERS LIMITED | 2.229919 |
| SCHUMAN, ADOLPH P. | 0.002138 |
| SHARBRO OIL LIMITED COMPANY | 0.414960 |
| SOUTHWEST ROYALTIES, INC. | 1.690908 |
| SPACE BUILDING CORPORATION | 0.005803 |
| SPIRAL, INC. | 1.086602 |
| TOM BROWN, INC. | 0.790735 |
| TRANSREPUBLIC RESOURCES, LTD | 0.004842 |
| UNIT PETROLEUM COMPANY | 2.432449 |
| VINTAGE PETROLEUM, INC. | 0.736598 |
| VOIGT, WILMA EVELYN | 0.334424 |
| VAN VRANKEN, FREDERICK, JR. | 0.004574 |
| YATES ENERGY CORPORATION | 0.213674 |
| TRUST Q U/W/O PEGGY A. YATES | 0.298393 |
| HARVEY E. YATES COMPANY | 0.507310 |
| ESTATE OF LILLIE M. YATES | 0.414960 |
| YATES DRILLING COMPANY | 2.131806 |
| YATES, JOHN A. | 0.298400 |
| YATES PETROLEUM CORPORATION | 68.367068 |
| TOTAL | 100.000000 |

EXHIBIT D
SCHEDULE OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING INTEREST OWNER
PAGE 1 OF 2

| OWNER NAME | BOE RESERVES, STBOE |
|-----------------------------------|---------------------|
| ABO PETROLEUM CORPORATION | 10127.0 |
| BP AMERICA PRODUCTION COMPANY | 53.2 |
| MCCOWN, CATHIE CONE | 342.6 |
| AUVENSHINE CHILDREN'S | 342.7 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 228.3 |
| BELLO, ERNIE | 21.1 |
| BLANTON, KIMBERLY STEWART | 200.8 |
| BROWN BROTHERS HARRIMAN TRUST | 17.1 |
| BUNN, FRANCES B. | 21.1 |
| BUNN, ROBERT B. | 7.7 |
| COLL, CLARKE C. | 770.9 |
| COLL, ERIC J. | 770.9 |
| COLL, CHARLES H. | 1713.3 |
| COLL, CHRISTOPHER DALE | 200.8 |
| COLL, KENNETH JAMES | 200.8 |
| COLL, MICHAEL T. | 200.8 |
| COLL, RICHARD KEITH | 200.8 |
| COLL, SALLY RODGERS | 685.3 |
| COLL, JON F. | 508.3 |
| COLL, JON F. II | 323.2 |
| COLL, MAX W. II | 1028.2 |
| COLL, MAX W. III | 24.4 |
| CONE, RANDY LEE | 114.3 |
| CONE, TOM R. | 301.9 |
| CONE, KENNETH G. | 342.6 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 342.7 |
| COLUMBIA RIVER RESOURCES, INC. | 270.0 |
| DETEMPLE, MELANIE COLL | 24.4 |
| DEVON ENERGY PRODUCTION CO., LP | 169.2 |
| E. G. L. RESOURCES, INC. | 420.1 |
| EXPLORERS PETROLEUM CORP. | 233.3 |
| F & J ENERGY PARTNERS, LTD. | 1006.1 |
| FIRST ROSWELL COMPANY | 321.7 |
| OLIVER, WILLIAM B. TRUST | 21.1 |
| GFB ACQUISITION - 1, LP | 618.4 |
| GENDRON, J. W. | 8.4 |
| GOODNOW, DAVID | 5.5 |
| HANSON-MCBRIDE PETROLEUM CO. | 294.5 |
| HODGE, JOSEPH R. | 0.3 |
| HODGE, SANFORD J. III | 1.7 |
| ELSIE G. HOLDEN, TESTAMENTARY | 4.4 |
| HOLLYHOCK, LTD | 2666.2 |
| JALAPENO CORPORATION | 336.9 |
| JOHNSON, S. P. III & BARBARA J. | 113.2 |
| KAWASAKI, DR. ISAAC A. | 5.5 |
| KELLER, BETSY H. | 4.4 |
| LANGDALE CORPORATION | 340.8 |
| LODEWICK, JOHN W. | 2666.2 |
| LODEWICK, LAURA PATRICIA | 2666.2 |

EXHIBIT D
SCHEDULE OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING INTEREST OWNER
PAGE 2 OF 2

| OWNER NAME | BOE RESERVES, STBOE |
|------------------------------|---------------------|
| MARKS OIL INC. | 422.2 |
| MARSHALL & WINSTON, INC. | 280.2 |
| MEWBOURNE, CURTIS W. | 1363.4 |
| MOORE, CHARLES CLINE | 7.4 |
| MOORE, MICHAEL HARRISON | 40.0 |
| MOORE, RICHARD L. | 40.0 |
| MOORE, STEPHEN SCOTT ESTATE | 40.0 |
| MYCO INDUSTRIES, INC. | 10566.5 |
| NEARBURG EXPLORATION COMPANY | 74426.6 |
| OZARK EXPLORATION, INC. | 1971.8 |
| OZARK (GAS) / ALTURA (OIL) | 54.7 |
| PJC LIMITED PARTNERSHIP | 113.2 |
| PANHANDLE ROYALTY COMPANY | 1359.7 |
| PITCH ENERGY CORPORATION | 951.7 |
| REYNOLDS, FRED N. | 1006.1 |
| RUTHEA, INC. | 340.8 |
| SACRAMENTO PARTNERS LIMITED | 12351.1 |
| SCHUMAN, ADOLPH P. | 5.5 |
| SHARBRO OIL LIMITED COMPANY | 2181.4 |
| SOUTHWEST ROYALTIES, INC. | 19994.2 |
| SPACE BUILDING CORPORATION | 12.4 |
| SPIRAL, INC. | 8438.3 |
| TOM BROWN, INC. | 13480.2 |
| TRANSREPUBLIC RESOURCES, LTD | 26.1 |
| UNIT PETROLEUM COMPANY | 10931.5 |
| VINTAGE PETROLEUM, INC. | 6816.6 |
| VOIGT, WILMA EVELYN | 1930.7 |
| VAN VRANKEN, FREDERICK, JR. | 21.1 |
| YATES ENERGY CORPORATION | 706.5 |
| TRUST Q U/W/O PEGGY A. YATES | 1682.5 |
| HARVEY E. YATES COMPANY | 1654.5 |
| ESTATE OF LILLIE M. YATES | 2181.4 |
| YATES DRILLING COMPANY | 13492.0 |
| YATES, JOHN A. | 1682.5 |
| YATES PETROLEUM CORPORATION | 459540.9 |
| TOTAL | 681403.0 |

EXHIBIT E
SCHEDULE OF VALUES OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING
INTEREST OWNER FOR WITHDRAWAL FROM UNIT PURSUANT TO PARAGRAPH 17.1
PAGE 1 OF 2

| OWNER NAME | VALUE OF RESERVES, DOLLARS |
|-----------------------------------|----------------------------|
| ABO PETROLEUM CORPORATION | 9,277 |
| BP AMERICA PRODUCTION COMPANY | 838 |
| MCCOWN, CATHIE CONE | 832 |
| AUVENSHINE CHILDREN'S | 997 |
| CONE, KATHLEEN TRUST, DEC'D (BOO) | 665 |
| BELLO, ERNIE | 57 |
| BLANTON, KIMBERLY STEWART | 307 |
| BROWN BROTHERS HARRIMAN TRUST | 51 |
| BUNN, FRANCES B. | 57 |
| BUNN, ROBERT B. | 23 |
| COLL, CLARKE C. | 1,973 |
| COLL, ERIC J. | 1,973 |
| COLL, CHARLES H. | 4,383 |
| COLL, CHRISTOPHER DALE | 307 |
| COLL, KENNETH JAMES | 307 |
| COLL, MICHAEL T. | 307 |
| COLL, RICHARD KEITH | 307 |
| COLL, SALLY RODGERS | 1,753 |
| COLL, JON F. | 2,539 |
| COLL, JON F. II | 620 |
| COLL, MAX W. II | 2,630 |
| COLL, MAX W. III | 63 |
| CONE, RANDY LEE | 332 |
| CONE, TOM R. | 750 |
| CONE, KENNETH G. | 941 |
| CONE, KATHLEEN TRUST, DEC'D (KGC) | 997 |
| COLUMBIA RIVER RESOURCES, INC. | 416 |
| DETEMPLE, MELANIE COLL | 63 |
| DEVON ENERGY PRODUCTION CO., LP | 257 |
| E. G. L. RESOURCES, INC. | 1,627 |
| EXPLORERS PETROLEUM CORP. | 695 |
| F & J ENERGY PARTNERS, LTD. | 1,111 |
| FIRST ROSWELL COMPANY | 535 |
| OLIVER, WILLIAM B. TRUST | 57 |
| GFB ACQUISITION - 1, LP | 999 |
| GENDRON, J. W. | 34 |
| GOODNOW, DAVID | 23 |
| HANSON-MCBRIDE PETROLEUM CO. | 1,044 |
| HODGE, JOSEPH R. | 3 |
| HODGE, SANFORD J. III | 3 |
| ELSIE G. HOLDEN, TESTAMENTARY | 15 |
| HOLLYHOCK, LTD | 6,784 |
| JALAPENO CORPORATION | 1,045 |
| JOHNSON, S. P. III & BARBARA J. | 1,475 |
| KAWASAKI, DR. ISAAC A. | 24 |
| KELLER, BETSY H. | 15 |
| LANGDALE CORPORATION | 557 |

EXHIBIT E
SCHEDULE OF VALUES OF REMAINING PRIMARY RESERVES ALLOCABLE TO EACH WORKING
INTEREST OWNER FOR WITHDRAWAL FROM UNIT PURSUANT TO PARAGRAPH 17.1
PAGE 2 OF 2

| OWNER NAME | VALUE OF RESERVES, DOLLARS |
|------------------------------|----------------------------|
| LODEWICK, JOHN W. | 6,784 |
| LODEWICK, LAURA PATRICIA | 6,784 |
| MARKS OIL INC. | 1,658 |
| MARSHALL & WINSTON, INC. | 1,636 |
| MEWBOURNE, CURTIS W. | 2,230 |
| MOORE, CHARLES CLINE | 46 |
| MOORE, MICHAEL HARRISON | 266 |
| MOORE, RICHARD L. | 266 |
| MOORE, STEPHEN SCOTT ESTATE | 266 |
| MYCO INDUSTRIES, INC. | 9,644 |
| NEARBURG EXPLORATION COMPANY | 24,675 |
| OZARK EXPLORATION, INC. | 5,407 |
| OZARK (GAS) / ALTURA (OIL) | 8,460 |
| PJC LIMITED PARTNERSHIP | 1,475 |
| PANHANDLE ROYALTY COMPANY | 5,990 |
| PITCH ENERGY CORPORATION | 1,762 |
| REYNOLDS, FRED N. | 1,111 |
| RUTHEA, INC. | 557 |
| SACRAMENTO PARTNERS LIMITED | 40,820 |
| SCHUMAN, ADOLPH P. | 23 |
| SHARBRO OIL LIMITED COMPANY | 3,886 |
| SOUTHWEST ROYALTIES, INC. | 12,980 |
| SPACE BUILDING CORPORATION | 71 |
| SPIRAL, INC. | 13,620 |
| TOM BROWN, INC. | 6,131 |
| TRANSREPUBLIC RESOURCES, LTD | 42 |
| UNIT PETROLEUM COMPANY | 26,615 |
| VINTAGE PETROLEUM, INC. | 10,165 |
| VOIGT, WILMA EVELYN | 4,615 |
| VAN VRANKEN, FREDERICK, JR. | 51 |
| YATES ENERGY CORPORATION | 2,192 |
| TRUST Q U/W/O PEGGY A. YATES | 3,485 |
| HARVEY E. YATES COMPANY | 5,193 |
| ESTATE OF LILLIE M. YATES | 3,887 |
| YATES DRILLING COMPANY | 16,197 |
| YATES, JOHN A. | 3,484 |
| YATES PETROLEUM CORPORATION | 599,500 |
| TOTAL | 882,042 |

YATES PETROLEUM CORPORATION

UNIT OPERATING AGREEMENT

NORTH DAGGER DRAW UPPER PENN UNIT

Dated: October 1, 2003

Township 19 South, Range 25 East

Section 16: All

Section 17: All

Section 18: Lots 3,4, E/2SW/4, SE/4NW/4,
SW/4NE/4, E/2NE/4, SE/4

Section 19: All

Section 20: All

Section 21: All

Section 28: All

Section 29: All

Section 30: All

Eddy County, New Mexico

EXHIBIT C

UNIT OPERATING AGREEMENT
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
NORTH DAGGER DRAW UPPER PENN UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as the 1st day of October, 2003 by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, North Dagger Draw Upper Penn Unit, Eddy County, New Mexico, herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference

2.1.1 Exhibit "A", attached hereto, is a map of the Unit Area showing the boundaries of each Tract and their respective Tract Numbers.

2.1.2 Exhibit "B", attached hereto, is a schedule showing all lands and leases, legal descriptions thereof and ownership within each Tract.

2.1.3 Exhibit "C", attached hereto, is a schedule showing the Unit Participation of each Working Interest Owner. Exhibit "C", or a revision thereof, shall not be conclusive as to the information

therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error or revised as herein authorized.

2.1.4 Exhibit "D", attached hereto, is a schedule of remaining primary reserves allocable to each of the Working Interest Owners.

2.1.5 Exhibit "E", attached hereto, is a schedule of values of remaining primary reserves allocable to each Working Interest Owner for the purpose of Withdrawal from the Unit pursuant to paragraph 17.1.

2.1.6 Exhibit "F", attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit "F", this Agreement shall govern.

2.1.7 Exhibit "G", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.8 Exhibit "H", attached hereto contains a Certificate of Non-segregated Facilities applicable to the Unit

2.2 Revision of Exhibits. Whenever Exhibits "A" or "B" are revised, Exhibit "C" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. Working Interest Owners shall be provided a duplicate copy of any exhibit revised as provided herein.

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

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

3.2.2 Drilling of Wells. The drilling, deepening, or plugging back of any well whether for 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 for 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 of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefore, and for completing, testing and equipping the well, including necessary flow lines, separators, and lease tankage; provided however, that in case of blowout, explosion, fire, flood or other sudden emergencies, Unit Operator may take steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life or property but that Unit Operator shall, as promptly as possible, report the emergency to the Working Interest Owners.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Twenty Thousand Dollars (\$20,000.00) or more.

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 Inventories. The taking of periodic inventories under the terms of Exhibit "F".

3.2.9 Technical Services. The authorizing of charges to the Joint Account of services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "F."

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation then in effect of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote.

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 three or more Working Interest Owners having a combined voting interest of at least seventy-five percent (75%); however, should any one Working Interest Owner have

more than twenty-five percent (25%) voting interest, its negative vote or failure to vote shall not defeat a motion, and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless three or more Working Interest Owners having combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any agenda item by letter, telegram, fax or email, addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting, provided the agenda items are not amended.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter, telegram, fax or email, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter, telegram, fax or email shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

5.3 Undrilled Locations. Unit Operator shall have the option to drill any undrilled locations on tracts committed to the Unit Area at Unit Expense subject to Article 3.2.2 and partners' approval as listed under Article 4.3.

5.4 Taking Unitized Substances In Kind. Each Working Interest Owner shall have the right to take in kind and separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive

of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. 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. 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, shall 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 three years, 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.

Unit Operator shall be responsible for the payment of all royalty, overriding royalty and production payments due on each Tract committed hereto, and each Working Interest Owner shall hold each other Working Interest Owner and Unit Operator harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments. Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract 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 and Unit Operator harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Yates Petroleum Corporation, a New Mexico corporation, is hereby designated as Unit Operator.

6.2. 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, the Land Commissioner 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 Land Commissioner and 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 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.

6.3 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or 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 two 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.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefore 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 an similar nature.

7.11 Mathematical Errors. Unit Operator is empowered to correct any mathematical errors, which might exist in the pertinent exhibits to this Agreement.

7.12 Border Agreement. Subject to the provisions and conditions in the Unit Agreement, Unit Operator shall have the right and authority to enter into border protection agreements or cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

7.13 Conflict of Supervision. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

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. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in property shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

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

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

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation.

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, the personal property taken over by Unit Operator under Section 10.1.2. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit "F" except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory in order to be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property 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 taken over the Unit Operator under Section 10.1.2. by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owners. If 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 system, 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.

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

ARTICLE 11

UNIT EXPENSE

11.1 Basis for 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 of such Unit Expense shall be the same as its Unit Participation for:

- (a) items in the nature of capital assets including, without limitation, real property if acquired;
- (b) acquiring, drilling, re-drilling, equipping and re-equipping water injection wells, re-plugging or converting oil wells to water injection wells, pumping and pipeline facilities for such wells, and changing any injection interval in any such well;
- (c) re-entry and re-plugging of wells outside the unit area as necessary to permit water injection into appropriate wells within the unit area;
- (d) gathering lines and facilities and common tank batteries utilized or acquired for Unit Operations, and
- (e) water purchased from parties other than Working Interest Owners obtained for injection purposes and the costs of transportation and injection thereof into the Unit Area.

Unit Operator will furnish make-up water from its Dagger Draw disposal system at no cost for Unit Operations so long as such water is available. Unit Operator shall charge as Unit Expense 2 cents per barrel handling fee for the make-up water handling and 6 cents per barrel for produced water injection. Each Working Interest Owner's share of all other Unit Expense shall be the same as its Unit Participation in effect at that time. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit "F".

The First Phase Unit Operations shall be defined as all Unit Operations necessary to prepare the Unit for injection, initiate injection into the Unitized Formation and shall extend until the first day of the month immediately following six (6) months after the initiation of injection into the Unitized Formation. First Phase Unit Expense shall include all Unit

Expense necessary to accomplish the First Phase Unit Operations inclusive of Unit Expense accrued through six (6) months after initiation of injection.

11.2 Budgets. Upon execution of this agreement and the Unit Agreement, and simultaneously therewith, Working Interest Owners agree to the estimated Budget for the First Phase Unit Expense. Each Working Interest Owner shall agree and be obligated to pay their respective share of First Phase Unit Expense through completion of the First Phase Unit Operations. Subsequent to the First Phase Operations Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year and on or before the first day of each October thereafter shall prepare such a budget for the ensuing calendar year. 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, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective share of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien and Security Interest of Unit Operator and the Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment to secure payment of its share of Unit Expense, together with interest thereon at the rate of twelve percent (12%) per annum, with the further provision that Unit Operator grants a like lien to Working Interest Owners. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, 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 a 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 thereof. In addition, upon default by any Working Interest Owners in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice, to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owners, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. The rights herein granted the Unit Operator shall in like manner apply to the other Working Interest Owners.

In addition to the liens and security interest as provided herein, each Non-Operator to this Agreement, to secure payment of its share of expenses incurred under this Operating Agreement, grants Operator a lien on all of its right, title and interest now owned or hereafter acquired in the contract Area including, but not limited to, the oil and gas leases, mineral estates and other mineral interests subject to this Operating Agreement and any properties now or hereafter pooled or unitized with any of the properties affected by such mineral interests; and all unsevered and unextracted oil, gas and other hydrocarbons that may be produced, obtained or secured from the lands covered and affected by such mineral interests.

In addition to the rights and remedies afforded to Operator pursuant to the terms hereof, or at law or in equity, it is understood and agreed that each defaulting party grants to the Operator a contractual right of offset in and to all money, production, proceeds from the sale of production and property of every kind or character of such defaulting party, now or at any time hereunder coming within Operator's custody or control, wheresoever located whether or not subject to the terms of the Agreement or any other agreement between Operator and defaulting party. Operator, may, at its election, at any time and from time to time, reduce (or eliminate, as the case may be) any debt owing to it by any defaulting party by applying such defaulting party's money, proceeds or property in the custody or control of Operator to the balance owed on such debt and giving such defaulting party appropriate credit therefore. Any such amount so applied shall first be applied to any past due interest, if any, then to any costs, including attorney's fees, incurred by Operator in the collection of the proceeds or property, and then to the underlying debt. It is agreed and understood that Operator's contractual right of offset shall extend to and include all proceeds of production attributable to the defaulting party from any wells in which the defaulting party owns an interest.

In addition to all rights and remedies afforded Operator under this agreement, in the event any debt owing by the defaulting party to Operator shall exceed any money, proceeds of sale of production, or property of such defaulting party as provided in the contractual right of offset as provided above, the Operator may elect to proceed and foreclose the lien of Operator against the interest of any defaulting party in the contract area.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense, whether subject to Advance Billing or usual monthly billing, Unit Operator shall give such Working Interest Owner a second notice requesting payment. If within fifteen (15) days after receipt of the second notice the Working Interest Owner has not paid to Unit Operator its unpaid Unit Expense, such Working Interest Owner shall be deemed in default and shall be deemed to have relinquished to the Unit Operator, and any other Working Interest Owner agreeing to pay its proportionate part of the defaulting owner's Unit Expense, all of its Oil and Gas Rights and Working Interest in and to the Unit. Thereafter such defaulting owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the defaulting Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest relinquished. Upon the effective date of relinquishment, the Unit Participations of the Working Interest Owners paying the default shall be revised to reflect the increase in their shares resulting from the default interest. Should there be a legitimate dispute of

a Unit Expense and a Working Interest Owner continues to pay undisputed Unit Expenses no default or relinquishment will occur until a determination has been made under the audit procedures herein and further provided in Exhibit "F". Notwithstanding anything herein to the contrary, all Working Interest Owners shall remain responsible, subject to the Lien and Security provisions of Section 11.5, for payment of their proportionate share of the costs of plugging and abandoning the Unit wells.

11.7 Carved-Out Interest. If any Working Interest Owners shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien of Unit Operator." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Sections 11.5 and 11.6 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Salvage Credit. Credit for Unit Equipment salvaged shall be divided in the same proportion as the Unit participation.

11.9 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. The Working Interest Owners recognize that there are Existing Operating Agreements covering the Unitized Formation, as to each Spacing Unit as designated by the New Mexico Oil Conservation Division, as well as other formations. This Unit Operating Agreement supercedes the Existing Operating Agreements only as to the Unitized Formation, and such Existing Operating Agreement continues in full force and effect as to any other lands and formations covered thereby. 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 above or 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, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory

to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13

TITLES

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

13.2 Failure Because of Unit Operations. The failure of title of 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.

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 Thirty Thousand Dollars (\$30,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State of New Mexico, or any future income tax of the United States, contain provisions similar to those in Subchapter K, Chapter I, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted, or required by such laws. In making this election, each of the parties' states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

15.2 Statutory Unitization. If working Interest Owners owning at least, seventy-five percent (75%) of the Unit Participation have become parties to this Agreement and if Royalty Interest Owners owning at least seventy-five percent (75%) of the Royalty Interest have become parties hereto, the Unit Operator may make application to the New Mexico Oil Conservation Division of the Energy and Minerals Department for statutory unitization of the uncommitted interests.

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, fax, email, or telephone to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4. Any notice given by telephone shall be promptly followed by written confirmation.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. At the completion of the First Phase Unit Operations Unit Operator shall give notice to each Working Interest Owner. A Working Interest Owner shall then have 30 days from receipt of notice to make a one-time election to withdraw from this Agreement and the Unit by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, effective the first day following completion of the First Phase Unit Operations, 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. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of the instrument of transfer. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations then in effect or in other proportions as may be agreed by the transferees. The transferees, in proportion to the respective interests so acquired, shall pay transferor according to the Schedule of Values for Withdrawal from the Unit, Exhibit "E." (The Schedule of Values for Withdrawal from the Unit, Exhibit "E", are calculated taking into consideration the net salvage value of Unit Equipment, the cost of salvaging and of plugging and abandoning wells then being used or held for Unit Operations.) In the event such withdrawing owner's interest in the aforesaid value is negative, 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 value 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. Upon the effective date of transfer, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest. Working Interest Owners electing not to withdraw during the 30 day election period provided shall thereafter participate in Unit Operations and be required to pay their proportionate share of Unit Expense until termination of the Unit, including all costs of plugging and abandoning Unit Wells.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the

Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Spacing Unit on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Should the Working Interest Owners within the Spacing Unit elect not to take over the well the Unit Operator shall give written notice to the other Working Interest Owners in the Unit, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten, (10) days after the Working Interest Owners 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 to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners, 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 no Working Interest Owners elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

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

20.1.2. Right to Operate. Working Interest Owners of any Spacing Unit 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 values, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

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

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

LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

21.1 Laws and Regulations This Agreement and operations hereunder are subject to all valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state and local laws, ordinances, rules, regulations and orders; and any provision of this agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly. This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state of New Mexico.

21.2 Certificate of Compliance. In the performance of work under this agreement, the parties agree to comply with, and Unit Operator shall require each independent contractor to comply with, the Federal contract provisions of Exhibit "H."

ARTICLE 22

EXECUTION

22.1 Original, Counterpart, or other Instruments. An owner of a Working Interest may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23

SUCCESSORS AND ASSIGNS

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

Should any interest committed hereto be or become owned by three (3) or more parties, then all of such parties shall be obligated to appoint a single agent to represent such interest for the purpose of accepting billings and receiving payments, if any, arising hereunder, or under the Unit Agreement, and for vote upon any matter which is the subject of determination of by the Working Interest Owners.

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

YATES PETROLEUM CORPORATION
Unit Operator and Working Interest Owner

By _____
Attorney-in-Fact

R 25 E

T 1 9 S

EXHIBIT "A"

YATES PETROLEUM CORPORATION

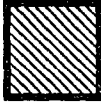
NORTH DAGGER DRAW

UPPER PENN UNIT

EDDY COUNTY, NEW MEXICO



Federal Land



State Land



Fee Land

All Leases are Held by Production

Scale: 2.5 inches = 1 mile

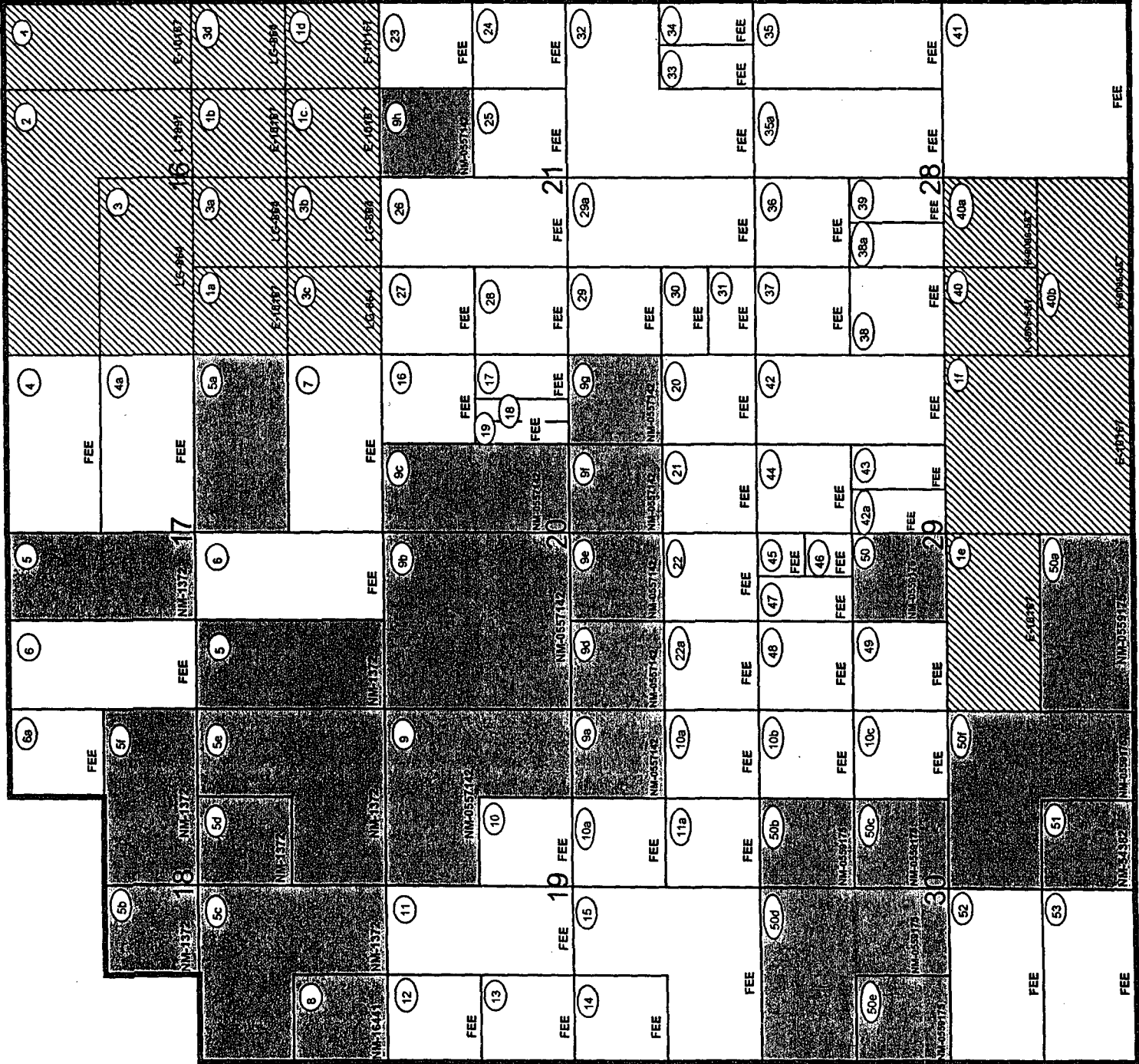


EXHIBIT "F" Accounting Procedure

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 of North America.

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

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. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

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 rate of twelve percent (12%) per annum 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. 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 joint or simultaneous audits 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.

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. **Rentals and Royalties**
Lease rentals and royalties paid by Operator for the Joint Operations.
2. **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.
 - 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 2A of this Section II. Such costs under this Paragraph 2B 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 2A 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 2A and 2B of this Section II.
 - D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.
3. **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 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).
4. **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.
5. **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, recognized barge terminal, or railway receiving point where like material is normally available, 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, recognized barge terminal, or railway receiving point 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, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.
6. **Services**
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii 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.
7. **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 investment not to exceed eight per cent (8%) 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 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 26%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.
8. **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.
9. **Legal Expense**
 - A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments 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.
 - B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. 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.

11. 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 Workmen'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.

12. 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 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:

(XX) 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 2A, 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 () shall not (XX) 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 \$ 5400.00
Producing Well Rate \$ 540.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive 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, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive 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 may be made for the month in which plugging and abandonment operations are completed on any well.
- [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 Fields 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 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; 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 total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus
 B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
 C. 2 % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds 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 where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, 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 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(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 2A of this Section IV. 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

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (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

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with 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 or change of interest 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.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "G"
Insurance Provisions

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per employee.
- (B) Public Liability Insurance:
Bodily Injury and Property Damage - \$1,000,000.00 single limit each occurrence.
- (C) Automobile Public Liability Insurance:
Bodily Injury \$500,000.00 each person.
\$1,000,000.00 each occurrence.

Property Damage - \$500,000.00 each accident.

(or)
Bodily Injury and Property Damage - \$1,000,000.00 combined single limit.
- (D) Control of Well and Extra Expense - \$10,000,000.00 - Limit of Liability

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "H"
EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- (1) 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 provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the 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.

- (7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The 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 non-compliance: 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-I) 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.

CERTIFICATION OF NON-SEGREGATED FACILITIES

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.

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.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U. S. C. - 1001.