UNIT OPERATING AGREEMENT
FOR THE
DONA UNIT AREA
COUNTY OF DONA ANA
STATE OF NEW MEXICO

DATED NOVEMBER 15, 1983

UNIT OPERATING AGREEMENT

DONA UNIT AREA

COUNTY OF DONA ANA

STATE OF NEW MEXICO

TABLE OF CONTENTS

UNIT OPERATING AGREEMENT

DONA UNIT AREA

COUNTY OF DONA ANA

STATE OF NEW MEXICO

THIS AGREEMENT made as of the 15th day of November, 1983, by and among the parties who execute or ratify this agreement or a counterpart hereof

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE DONA UNIT AREA, County of Dona Ana, State of New Mexico, dated as of the 15th day of November, 1983, and hereinafter referred to as the "Unit Agreement," covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement,

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

ARTICLE 1
DEFINITIONS

1.1 Unit Agreement Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 "Unit Operator" mean Exxon Corporation and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 "Party" means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 "Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 "Committed Working Interest" means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement.

1.6 "Participating Interest" of a Party means the proportion (expressed as a percentage) that the acreage of its Committed Working Interest or Interests bears to the total acreage of all the Committed Working Interests of the Parties; for the purposes of this definition (a) the acreage of the Working Interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement and (b) if the Working Interest in a tract is owned by two or more owners, the acreage of such tract shall be apportioned among them in proportion to their respective Working Interests therein.

1.7 "Beneficial Interest" of a Party means the proportion (expressed as a percentage) that the net acreage of its Committed Working Interest or Interests of the Parties; for the purpose of this definition the net acreage of the committed Working Interest owned by a Party in a tract shall be calculated by multiplying the acreage of such tract, as shown in Exhibit B to the Unit Agreement, by the percentage of the oil and gas which, if produced from such tract in the absence of the Unit Agreement and this agreement, would accrue to

such Committed Working Interest after deducting all Lease Burdens (whether payable in cash or in kind) shown on said Exhibit B as an encumbrance upon such Committed Working Interest.

1.8 "Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 "Available Production" means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement and so much thereof as is delivered in kind to owners of Lease Burdens entitled to delivery thereof in kind.

1.10 "Drilling Party" means the Party or Parties obligated to contribute to the Costs incurred in Drilling, Reworking, Deepening or Plugging Back a well in accordance with this agreement.

1.11 "Non-Drilling Party" means a Party not obligated to contribute to the Costs incurred in Drilling, Reworking, Deepening or Plugging Back a well in accordance with this agreement.

1.12 "Drill" means to perform all operations reasonably necessary and incident to the drilling of a well, including preparation of roads and drill site, testing and plugging and abandoning, if dry.

1.13 "Rework, Deepen or Plug Back" means to perform all operations reasonably necessary and incident to reworking deepening or plugging back a well, testing and plugging and abandoning, if dry.

1.14 "Initial Test Well" means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.15 "Subsequent Test Well" means a test well drilled after the drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.16 "Approval of the Parties" or "Direction of the Parties" means an approval, authorization or direction which receives the affirmative vote of the Parties specified in Section 7.2.

1.17 "Salvage Value" of materials and equipment means the value of such materials and equipment determined in accordance with Exhibit 2, less the reasonably estimated costs of salvaging the same.

1.18 Each Party is herein referred to by the neuter pronoun "it".

1.19 "Director" shall mean the Director of the Bureau of Land Management or any person authorized to act on Director's behalf.

1.20 "Authorized Officer" (AO) shall mean any employee of the Bureau of Land Management who has been delegated the authority to perform the duties described in this Part.

1.21 "Land Commissioner" shall mean the Commissioner of Public Lands of the State of New Mexico.

1.22 "Division" shall mean the Oil Conservation Division of the New Mexico Energy & Minerals Department.

ARTICLE 2
APPORTIONMENT OF COSTS AND OWNERSHIP OF AVAILABLE PRODUCTION AND PROPERTY

2.1 Apportionment. Except as otherwise specified herein, (particular reference being made to Sections 9.3 Taxes, 16.7 Relinquishment of Interests by Non-Drilling Party, 16.8 Rights and Obligations of Drilling Party, 18.9 Relinquishment of Interest by Non-Drilling Parties, 18.11 Rights and Obligations of Drilling Parties, and 25.3 Rights and Obligations of Non-Abandoning Party):

A. All Costs incurred by Unit Operator in the conduct of operations pursuant to this agreement shall be borne by the Parties in proportion to their respective Participating Interests.

B. All Available Production shall be owned by the Parties in proportion to their respective Beneficial Interests.

C. All materials, equipment and other property, whether real or personal, acquired by Unit Operator, and the cost of which is chargeable as Costs pursuant to this agreement, shall be owned by the Parties in proportion to their respective Participating Interests.

2.2 Revision of Apportionment. Upon termination or other removal of a Lease Burden shown in Exhibit B to the Unit Agreement as an encumbrance upon a Committed Working Interest, the net acreage of such Committed Working Interest and the Beneficial Interests of all Parties shall be revised, but Unit Operator shall not be required to recognize the change in Beneficial Interests resulting from such revision until the first day of the month next succeeding the termination or other removal of such Lease Burden. No other change shall be made in the Beneficial Interests of the Parties and no change shall be made in the Participating Interests of the Parties, except for transfers of Committed Working Interests and except as otherwise specified herein (particular reference being made to Sections 4.2 Failure to Pay Rentals and 11.7 Effect of Disapproval of Title).

2.3 Cost Liability of Subsequently Created Interests. Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interests, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this agreement. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed Working Interest; and Unit Operator shall have the right to enforce against such Subsequently Created Interest the lien and all other rights granted in Section 8.5 for the purpose of collecting Costs chargeable to the Subsequently Created Interest.

ARTICLE 3
UNLEASED INTERESTS

3.1 Treated as Leased. If a Party owns in fee all or any part of the oil and gas rights in a tract within the Unit Area, free from oil and gas lease or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract, and also a royalty interest in such tract, in the same manner and with like effect as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached hereto as Exhibit 4 and as if such Party owned both the royalty interest reserved in such lease and the interest of the lessee under such lease. However, such Party shall have the right to take in kind all Unitized Sub-

stances accruing to the royalty interest deemed owned by it in such tract, in the same manner as it is entitled to take in kind its proportionate share of Available Production.

3.2 Execution of Lease. In any provisions hereunder where reference is made to an assignment by any Party of its Committed Working Interest to any other Party, such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall execute an oil and gas lease to such other Party in the form attached hereto as Exhibit 4, which shall satisfy the requirement for assignment of a Committed Working Interest.

ARTICLE 4
RENTALS AND LEASE BURDENS

4.1 Payment of Rentals. Each Party whose committed Working Interest in a tract within the Unit Area is held under oil and gas lease shall pay, on or before the due date thereof, each installment of rental becoming due and payable under such lease, in respect of such tract, unless and until surrender of such lease is directed by the Parties in accordance with Article 26 dealing with Surrender. Such Party shall furnish evidence of payment thereof to Unit Operator and to each of the other Parties who makes written request therefor. Upon receipt of evidence acceptable to it of the payment of any such installment of rental which becomes due on or after the effective date of this agreement, Unit Operator shall credit or reimburse the Party who made payment thereof for the amount of such installment, which shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests.

4.2 Failure to Pay Rentals. If an oil and gas lease covering a tract within the Unit Area is terminated by failure to make proper payment of rental required to be paid by a Party in accordance with Section 4.1, such Party shall make a bona fide effort at its own expense to obtain a new lease covering the same interest in such tract as that covered by the terminated lease. If the new lease is not obtained within sixty (60) days after such termination, loss of the terminated lease shall have the same consequences as if title to the terminated lease had failed before approval thereof in accordance with Article 11 dealing with titles, and the Participating Interests and Beneficial Interests of the Parties shall be changed accordingly, effective as of the first day of the month following such termination. If a Party's failure to make proper payment of rental required to be paid by it in accordance with Section 4.1 is unintentional, such Party shall not be liable in damages to the other Parties.

4.3 Lease Burdens Payable by Unit Operator. Any and all payments (including minimum royalties) accruing to Lease Burdens shown in Exhibit B to the Unit Agreement on the effective date hereof, (including any such Lease Burdens not committed to the Unit Agreement) in respect of Unitized Substances, shall be made by Unit Operator for the account of the Parties. All such payments made by Unit Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that all such payments made in respect of Unitized Substances produced from a well owned by less than all the Parties shall be charged to and borne by the Party or Parties owning such well in the proportions that such Parties share in the Available Production therefrom. Also, Unit Operator shall deliver Unitized Substances to owners of Lease Burdens who have the right and who elect to take the same in kind.

4.4. Lease Burdens and other Interests Payable by Parties. If a Committed Working Interest is subject to a Lease Burden not shown in Exhibit B to the Unit Agreement on the effective date hereof or to a carried working interest, net profits interest or any other interest which is payable out of profits, the Party owning such Committed Working Interest shall be solely responsible for, and shall bear the entire burden of, any and all payments accruing thereto in respect of Unitized Substances.

ARTICLE 5
COMPENSATORY ROYALTIES

5.1 Payment and Apportionment. Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Unit Operator shall give written notice thereof to each Party. If payment of such compensatory royalties is Approved by the Parties, Unit Operator shall make payment thereof. All payments so made by Unit Operator shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests. If payment of compensatory royalties is not approved by the Parties then the rights and obligations of the Parties shall be governed by Article 17 dealing with Required Wells.

ARTICLE 6
LIABILITIES FOR DAMAGES TO OWNERS OF UNCOMMITTED ROYALTY INTERESTS

6.1 Apportionment. If the royalty interest reserved to the lessor in any oil and gas lease covering land within the Unit Area, or any part of such royalty interest, is not committed to the Unit Agreement, and if operations conducted pursuant to this agreement result in liability in damages to the owner or owners of such uncommitted royalty interest, the amounts payable by reason of such liability shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests, but this Section 6.1 does not include liability for payment of uncommitted Lease Burdens, such payments being provided for in Section 4.3 dealing with Lease Burdens Payable by Unit Operator.

ARTICLE 7
SUPERVISION OF OPERATIONS BY PARTIES

7.1 Right of Supervision. All operations conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control by the Parties acting in accordance with the succeeding provisions of this Article; however, if less than all of the Parties are chargeable with the Costs incurred in the conduct of a particular operation, such as the Drilling, Reworking, Deepening or Plugging Back of a well, then, except as provided in Section 18.7 dealing with Effect of Election to Rework, Deepen or Plug Back and Limitation on Right, only the Party or Parties obligated to bear such Costs shall have right of supervision over such operation.

7.2 Voting Control. Each Party having the right to vote on any matter shall have a vote thereon equal to its Participating Interest. Except as provided in the Unit Agreement and except as otherwise specified herein, (particular reference being made to Sections 7.6 Audits, 11.5 Approval of Titles, 21.1 Consent Required (Enhanced Recovery and Pressure Maintenance), 25.1 Consent Required (Abandonment of Producing Wells), 26.2 Right to Surrender Inside Participating Area, and 36.2 Required Right of Withdrawal), the affirmative vote of Parties having sixty-five percent (65%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has sixty-five percent (65%) or more, but less than seventy-five percent (75%), of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party having at least Five Percent (5%) of the voting power; and provided further, that if one Party voting in the negative or failing to vote has more than thirty-five percent (35%), but less than fifty percent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless such Party's negative vote is supported by the negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any approval, authorization or

direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

7.3 Meetings. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party having voting power on any matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator, shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting. Unit Operator's representative shall be Chairman of such meeting.

7.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail, telegraph, or telephone (confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail, telegraph, or telephone (confirmed in writing not later than the next business day), within such period, not less than ten (10) nor more than thirty (30) days, as may be designated in the notice given by Unit Operator, provided, however, that if within ten (10) days after submission of such matter request is made for a meeting in accordance with Section 7.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

7.5 Representatives. Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition, any corporate Party may vote through its President or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

7.6 Audits. Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 2.

7.7 Extraneous Projects. Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this Agreement.

ARTICLE 8
UNIT OPERATOR'S POWERS AND RIGHTS

8.1 In General. Subject to the limitations provided for in this agreement all operations authorized by the Unit Agreement and this agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and other property owned by the Parties jointly.

8.2 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

8.3 Non-Liability. Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

8.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, inability to obtain equipment, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

8.5 Lien. Each of the Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment, and other property, and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. In addition, to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the rate of eighteen percent (18%) per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

8.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties payment in advance of their respective shares of the estimated amount of the Costs to be incurred in operations hereunder during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within thirty (30) days after the mailing thereof, and thereafter shall bear interest at the rate of twelve percent (12%) per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Reworking, Deepening, Plugging Back or Completing operation and, notwithstanding any other provision of this agreement, shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

8.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Reworking, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract approved by the Party or Parties chargeable with the Costs

incurred in such operation, except that in any case where Unit Operator alone constitutes the Drilling Party, such drilling contract shall be approved by the Parties prior to the commencement of such operation.

8.8 Rights as Party. As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to receive same.

ARTICLE 9
UNIT OPERATOR'S DUTIES

9.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling of Wells. Drill, Rework, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. Compliance with Laws and Agreements. Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state of local), and Directions by the Parties pursuant to this agreement. In case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. Consultation with Parties. Consult freely with the other Parties concerning operations hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment;

D. Payment of Cost: Pay all Costs incurred in operations here under promptly as and when due and payable and keep the Committed Working Interests and all property used in connection with operations under this agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving to the other Parties written notice thereof;

E. Records. Keep full and accurate records of all Costs incurred, Lease Burdens paid and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during usual business hours at the office of Unit Operator;

F. Information. Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorization for expenditure or itemization of estimates expenditures in excess of $25,000, (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, (4) samples of cores or cuttings taken from wells drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other or additional information or reports as may be Directed by the Parties in accordance with the provisions of this agreement or the Unit Agreement. If multiple copies of any such material are requested by any party, Unit Operator may charge the cost thereof directly to the requesting party.

G. Access to Unit Area. Permit each of the other Parties, through its duly authorized employees or agents, but at its sole risk and expense, to have access to the Unit Area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing

operations conducted hereunder and inspecting jointly owned materials, equipment or other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

9.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as is Approved from time to time by the Parties. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractor's. Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation law of the state in which the Unit Area is located and to maintain such insurance as Unit Operator may be Directed by the Parties to require.

C. Automotive Equipment. In the even Automobile Public Liability insurance is specified in said Exhibit 5 or is subsequently Approved by the Parties no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

9.3 Taxes. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof), or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable and shall be charged and borne as follows:

A. Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein.

B. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that in the case of a well owned by less than all the Parties such taxes shall be charged to and borne by the Party or Parties owning such well in the same proportions that they share in the Available Production therefrom. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties. Provided, however, if the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest.

C. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or any interest in any well, or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided, the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportionate between such Parties so that each

shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

D. Notwithstanding anything to the contrary contained herein, as to the payment of taxes relating to production:

1. At and during such time or times as Non-Operator is exercising the right to take in kind or separately dispose of its proportionate part of the production as set forth in Paragraph 22.1 hereof, Non-Operator shall pay or arrange for the payment of all production, excise severance, gathering, sales or similar taxes imposed upon such part.

2. At and during such time or times as Unit Operator is selling Non-Operator's proportionate part of the production, as set forth in Paragraph 22.2 hereof, Unit Operator shall pay or arrange for the payment of all production, excise severance, gathering, sales or similar taxes imposed upon such part.

9.4 Non-Discrimination. Unit Operator shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and an identical provision shall be incorporated in all contracts made by Unit Operator with independent contractors.

9.5 Drilling Contracts. Each Drilling, Reworking, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 8.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions Approved by the Parties.

9.6 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided for shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 10
LIMITATIONS ON UNIT OPERATOR

10.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change In Operations. Make any substantial change in the basic method of operation of any well, except in the case of emergency.

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of Twenty Five Thousand Dollars ($25,000); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Reworking, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith, and (3) in case of

emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator or appoint any suboperator, or execute any designation of agent.

D. Settlement of Claims. Pay in excess of Ten Thousand Dollars ($10,000) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. Determinations. Make any of the determinations provided for in the Unit Agreement, except as otherwise specified in this agreement.

ARTICLE 11
TITLES

11.1 Representations of Ownership. Each Party represents to all other Parties that its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such representation of ownership is incorrect the rights and responsibilities of the Parties shall be governed by the provisions of this Article 11, but such erroneous representation shall not be a cause for cancelling or terminating this Agreement.

11.2 Title Papers to be Furnished Before Discovery.

A. Lease Papers. Each party, after executing this agreement, shall upon request promptly furnish Unit Operator with copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. Title Papers for Initial Test Well. Promptly after the effective date of this agreement each Party whose Committed Working Interests cover any land, any part of which is within an area designated by Unit Operator surrounding the location of the Initial Test Well, shall at its own expense furnish, but without responsibility for the accuracy thereof, Unit Operator with the following title material relating to such land, or to the Committed Working Interests covering the same:

1. Abstracts of title based upon the county records certified to current date,

2. All Lease Papers, or copies thereof, mentioned in Section 11.2 A which the Party has in its possession, and which have not been previously furnished to Unit Operator,

3. Copies of any title opinions which the Party has in its possession,

4. If federal lands are involved, status reports of current date setting forth the entries found in the district land office of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,

5. If state lands are involved, status reports of current date setting forth the entries pertaining to the land involved found in the records of such state, and

6. If Indian lands are involved, status reports for the land involved setting forth the entries found in the office of the Superintendent of the Indian Agency and the area office for such lands.

C. Title Papers for Subsequent Test Well. Prior to the drilling of any Subsequent Test Well each Party whose Committed Working Interests cover any land, any part of which is within an area of 640 acres designated by Unit Operator surrounding the location of such Subsequent Test Well, shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 11.2 B relating to such land or its Committed Working Interests therein.

D. Title Papers on Establishment or Enlargement of a Participating Area. Upon the establishment or the enlargement of a participating area, each Party shall promptly furnish Unit Operator all the title materials listed in Subdivision B of this Section 11.2 not previously furnished, relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

11.3 Title Examination. Promptly after all title materials delivered pursuant to Section 11.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties as soon as they are received.

11.4 Expense of Title Examination and Curative Work. All expenses incurred in connection with a title examination hereunder prior to the discovery of Unitized Substances in paying quantities shall be charged to and borne by the Parties obligated to bear the Costs of Drilling the well for which title examination is made. All expenses incurred in connection with title examinations hereunder after such discovery shall be charged as Costs and borne by the Parties in proportion to their respective Participating Interests. Such curative work as is performed to meet title requirements concerning a Committed Working Interest shall be performed by and at the expense of the Party claiming such interest.

11.5 Approval of Title. After a title examination has been completed and a reasonable time not exceeding thirty (30) days has been allowed for any necessary curative work, the Unit Operator shall submit to each Party a report concerning the title examination, with written recommendation for approval or disapproval of the title to each Committed Working Interest involved. Each Party, within fifteen (15) days after receipt of such report and recommendation, shall notify each of the other Parties in writing whether it approves or disapproves title to the Committed Working Interests covered by the report. Any Party disapproving any title shall state the reasons therefor. A Party who does not so disapprove title thereto within said fifteen (15) day period shall be deemed to have approved such title. Title to a Committed Working Interest shall be deemed approved if and when approved as above provided by Parties having seventy-five percent (75%) of the total Participating Interest of all the Parties. Title to a committed Working Interest which is not approved as above provided within the fifteen (15) day period above specified shall be deemed disapproved at the end of said period.

11.6 No Drilling Until Title Approved. No well shall be drilled and no production facilities shall be erected on a tract of land within the Unit Area until title to the Committed Working Interest therein has been approved as herein provided.

11.7 Effect of Disapproval of Title. If title to a Committed Working Interest is disapproved as above provided the Party claiming such interest may, with thirty (30) days after such disapproval, either (a) provide indemnity on such terms, in such amount and covering such period of time as may be specified by the other Parties or (b) undertake by written notice to all other Parties to

make a bona fide effort to cure, within a period of time specified by the other Parties, the deficiencies on account of which title was disapproved. In the latter event the proceeds of all Unitized Substances accruing to such interest shall be paid to Unit Operator and held in suspense until title to such interest is approved, or until expiration of the time fixed for curing deficiencies in title to such interest. If either of said elections is made by the Party claiming such interest and title to such interest is not approved within the time specified as above provided, or if neither of said elections is made by such Party, the following provisions shall then apply:

A. Revision of Interests. The interest, title to which has been disapproved, shall no longer be subject to this agreement and effective as of the first day of the month following such disapproval of title the Participating Interests and the Beneficial Interests of the Parties shall be revised accordingly; and

B. Reimbursement. If at the time of such disapproval of title the Party who claims ownership of such interest has not been fully reimbursed by the proceeds or market value of Unitized Substances theretofore allocated to such interest, for the share of Costs theretofore charged to such Party on account of such interest, such Party shall have the right:

1. to receive the proceeds of Unitized Substances theretofore accrued to such interest and then held in suspense, up to the amount of such unrecovered Costs; and

2. insofar as such unrecovered costs are not paid out of said proceeds held in suspense, to receive that portion of the Unitized Substances thereafter produced which would be allocable to such interest had title thereto not been disapproved until the proceeds or market value of such portion (plus the proceeds held in suspense, if any) shall equal such unrecovered Costs; said portion of Unitized Substances shall be contributed by the other Parties in proportion to their respective Beneficial Interests.

11.8 Title Examination Before Discovery. Prior to the drilling of the Initial Test Well and prior to the drilling of any Subsequent Test Wells the Unit Operator shall examine or cause to be examined title to all Committed Working Interests which cover lands within the areas delineated by Unit Operator and referred to in Sections 11.2 B and 11.2 C and secure the approval or disapproval of the same. Prior to the drilling of the Initial Test Well any Party shall have the right to request title examination of any Committed Working Interest which it claims and which covers land outside the area delineated by Unit Operator under Section 11.2 B and secure the approval or disapproval of the same. The expense of any such requested title examination shall be borne by the requesting Party.

11.9 Title Papers to be Furnished After Discovery. After discovery of Unitized Substances in paying quantities in the Unit Area each Party shall promptly furnish to Unit Operator all the title material listed in Section 11.2 B relating to all its Committed Working Interests.

11.10 Title Examination After Discovery. Promptly after discovery of Unitized Substances in paying quantities in the Unit Area the Unit Operator shall examine or cause to be examined title to all Committed Working Interests and secure the approval or disapproval of the same.

11.11 Failure of Title to Approved Interest. If title to any Committed Working Interest has been approved and subsequently fails in whole or in part, the following shall be the consequences:

A. Effect Upon Committed Parties. Such title failure shall not cause any change in the proportion in which the Parties to this agreement at the date of such title failure as among themselves bear Costs and share in Unitized Substances, whether or not the true owner of the interest to which title failed joins in the Unit Agreement and this agreement.

B. Damages. Any loss, liability, damage or expense arising by reason of such failure of title, except liability to third parties for damages on account of prior production of Unitized Substances, shall be charged as Costs and borne by the Parties to this agreement at the date of title failure in proportion to their respective Participating Interests on such date.

C. Accounting for Unitized Substances. Any liability to third parties for damages on account of prior production of Unitized Substances shall be borne by the Parties in the same proportions in which they shared in such prior production.

11.12 Joinder by True Owner. The true owner of a Working Interest which has ceased to be subject to this agreement because title is disapproved or because title has failed may, upon such terms and conditions as are Approved by the Parties, join this agreement or enter into a separate operating agreement.

11.13 Failure of Title to Committed Working Interest Before Approval. If title to a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against any and all liability on account thereof.

11.14 Option for Additional Title Examination. Any Party who furnishes materials for title examination pursuant to Section 11.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same; and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove titles according to the provisions of this Article 11.

ARTICLE 12
INITIAL TEST WELL

12.1 Location. Unit Operator shall begin to drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

12.2 Costs of Drilling. The Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

ARTICLE 13
ADDITIONAL DRILLING AND DEEPENING OR PLUGGING BACK

13.1 No Liability Without Consent. Except as provided in Exhibit 3 with respect to the Initial Test Well and except as provided in Section 17.4 dealing with Required Drilling no Party shall be liable for any portion of the costs of Drilling any well or for any portion of the Costs incurred in Reworking, Deepening or Plugging Back a well unless it elects to participate in such operations as hereinafter provided.

ARTICLE 14
SUBSEQUENT TEST WELLS

14.1 Purpose. The purpose of this Article is to enable one or more of the Parties to have a Subsequent Test Well drilled when all the Parties do not desire to participate in the Costs of Drilling such a well. This Article shall become effective seventy-five (75) days in advance of the date on which a Subsequent Test Well must be drilled to prevent the Unit Agreement from becoming subject to termination, but shall become effective only if all the Parties have not then agreed upon the drilling of a Subsequent Test Well. Before the beginning of said seventy-five (75) day period any Party or Parties desiring to Drill a Subsequent Test Well shall have the right to do so by proceeding in accordance with, and subject to, the provisions of Article 16, dealing with Drilling After Discovery.

14.2 Rights and Obligations of Drilling Party. If this Article becomes effective any Party or Parties desiring to have a Subsequent Test Well Drilled and shall have the right so to do by following the same procedure, subject to the same rights and obligations, as provided for in Article 16 dealing with Drilling After Discovery.

ARTICLE 15
ESTABLISHMENT, REVISION, AND CONSOLIDATION OF PARTICIPATING AREA

15.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least twenty (20) days before filing the same with the AO, and the Land Commissioner, and the State Division. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

15.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the AO, and the Land Commissioner, and the State Division.

15.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60) days from submission of the first proposal, then Unit Operator shall file with the AO, the Land Commissioner, and the State Division a proposal reflecting as nearly as practicable the various views expressed by the Parties.

15.4 Rejection of Proposal. If a proposal filed by Unit Operator as above provided is rejected by the AO, the Land Commissioner, or the State Divsion, Unit Operator shall initiate a new proposal in the same manner as provided in Section 15.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

15.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 16
DRILLING AFTER DISCOVERY

16.1 Purpose. The purpose of this Article is to enable one or more of the parties to have a well drilled after discovery of Unitized Substances in paying quantities when all the Parties do not desire to participate therein.

16.2 Notice of Proposed Drilling. At any time after discovery of Unitized Substances in paying quantities any Party may propose the Drilling of a well within the Unit Area by giving to each of the other Parties written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed.

16.3 Response to Notice. Within thirty (30) days after receipt of such notice each Party shall advise all other Parties in writing whether or not it wishes to participate in Drilling the proposed well. If all the Parties so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

16.4 Notice of Election to Drill. Unless all Parties agree to participate in response to said notice then within fifteen (15) days after expiration of said period of thirty (30) days each Party then desiring to have the proposed well Drilled shall give to all other Parties written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

16.5 Effect of Election to Drill. If all the Parties so elect to proceed, Unit Operator shall Drill the proposed well for the account of all the Parties, but if one or more, but not all, of the Parties so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party; provided, however, that if the proposed well is to be Drilled within a participating area to any zone or pool for which such participating area was established the well shall not be drilled without the Approval of the Parties first obtained. Unit Operator shall commence operations for the Drilling of the proposed well as promptly as reasonably possible after all necessary approvals have been obtained.

16.6 Subsequent Election. Any Party who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

16.7 Relinquishment of Interests by Non-Drilling Party. If any Party does not elect, as above provided, to participate in Drilling the proposed well, such Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to the proposed well. If the well is completed as a producer of Unitized Substances the operating rights and working interest so relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production from the well which would have accrued to its Beneficial Interest, if the well had been Drilled for the account of all Parties (after deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B) shall equal the total of the following:

A. 100% of each such Non-Drilling Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Drilling Party's share of the cost of operation of the well commencing with first production and

continuing until each such Non-Drilling Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Drilling Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Drilling Party had it participated in the well from the beginning of the operation; and

B. 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Drilling Party if it had participated therein.

From and after such reversion, such Non-Drilling Party shall (a) bear that percentage of all Costs thereafter incurred in operation of the well, and own that percentage of the well, the operating rights and working interest therein and the materials and equipment therein or appurtenant thereto, which is equal to its Participating Interest, and (b) own that percentage of all Available Production from the well which is equal to its Beneficial Interest.

16.8 Rights and Obligations of Drilling Party. If the proposed well is Drilled as above provided otherwise than for the account of all the Parties, all Costs incurred in Drilling the proposed well shall be borne by the Drilling Party and, subject to reversion to Non-Drilling Parties of their relinquished interests, such well, the materials and equipment therein, and Available Production therefrom, shall be owned by the Drilling Party. If the Drilling Party includes two or more Parties:

A. Apportionment of Drilling Party Interests. Each such Party shall bear that percentage of all Costs incurred in Drilling and operating the well which is equal to its Participating Interest and shall own that percentage of the Available Production therefrom equal to its Beneficial Interest.

B. Apportionment of Relinquished Interests. That percentage of all costs incurred in Drilling the well which is equal to the Participating Interest or Interests of the Non-Drilling Party or Parties shall be borne by the Parties comprising Drilling Party in proportion to their respective Participating Interests among themselves. Until reversion of the relinquished interest of a Non-Drilling Party, the Parties comprising Drilling Party, in proportion to their respective Participating Interests among themselves, shall (1) bear that percentage of the Costs incurred in operating the well equal to such Non-Drilling Party's Participating Interest and (2) own that percentage of the Available Production from the well equal to the Beneficial Interest of such Non-Drilling Party.

C. Lease Burdens. All payments accruing to Lease Burdens in respect of Unitized Substances produced from the well shall be borne by the Parties entitled to share in the Available Production therefrom in the same proportions that they are entitled to share therein.

16.9 Attempted Completion. The attempted Completion of Wells Drilled to their projected depths shall be governed by the following provisions:

A. Notice by Unit Operator. After a Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

B. Right to Attempt Completion. Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 16.9

shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 18, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

D. Election. If a proposal to Complete is initiated, each Drilling Party shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the Completion attempt.

E. Effect of Election. The Party or Parties electing to participate in an attempt to Complete a well as provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

F. Rights and Obligations of Completing Party and Non-Completing Party. Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of this Article 16 regarding the drilling of wells where all parties do not desire to participate (specifically including but not limited to Article 16.7 and 16.8) shall be applicable to such operation.

G. Notice Prior to Plugging. Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 18.4, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 18 shall apply.

ARTICLE 17
REQUIRED WELLS

17.1 Definition. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of the AO, the Land Commissioner, or the State Division. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties. If any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

17.2 Election to Drill. Any Party desiring to Drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with such order. If such notice is given within said period, Unit Operator shall drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Available Production therefrom and the bearing of

Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 16 dealing with Drilling After Discovery.

17.3 Alternatives to Drilling. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof is authorized by the Parties within said period, Unit Operator shall pay such compensatory royalties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area through exclusion of lands not then within a participating area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the AO and the Land Commissioner; or

C. Termination. If Unitized Substances have not theretofore been discovered in paying quantities within the Unit Area, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

17.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well for the account of all the Parties, each of whom shall bear that percentage of all Costs incurred therein which is equal to its Participating Interest.

ARTICLE 18
REWORKING, DEEPENING OR PLUGGING BACK

18.1 Purpose of Article. It is the purpose of this article to specify the circumstances under which, and the procedure by which, wells may be Reworked, Deepened or Plugged Back otherwise than for account of all the Parties, whether or not theretofore completed as producers of Unitized Substances. If all the Parties consent in writing to the Reworking, Deepening or Plugging Back of a well owned by all the Parties, such Reworking, Deepening or Plugging Back shall be conducted by Unit Operator for the account of all the Parties, and this Article shall not apply thereto. If no Party elects to Rework, Deepen or Plug Back a Well Drilled hereunder but not completed as a producer, or a producing well which every Party owning an interest therein desire to abandon, such well shall be abandoned and plugged by Unit Operator for the account of the Parties then owning interests therein.

18.2 Notice and Response on Discontinuance of Production From Producing Well. If every Party then owning an interest in a well completed as a producer of Unitized Substances agrees in writing to discontinue operation of such well for production from each pool or zone in which it is then completed, Unit Operator shall give written notice thereof to all the Parties, except that such notice need not be given in the case of a well owned by all the Parties if every Party has consented in writing to abandonment and plugging of the well, or if every Party has agreed in writing to participate in Reworking, Deepening or Plugging Back the well. If such notice is required, any Party proposing to Rework, Deepen or Plug Back such well shall, within Thirty (30) days after receipt of the notice given by Unit Operator, so advise all other Parties in writing, stating the projected depth of the Reworking, Deepening or Plugging Back and the estimated cost thereof. If such proposal is so made, each of the other Parties who desires to participate therein shall so advise all other Parties in writing within thirty (30) days after receipt of the proposal. Any Party or Parties then electing to proceed with the Reworking, Deepening or Plugging Back shall give Unit Operator written notice thereof within fifteen (15) days after expiration of said period of thirty (30) days.

18.3 Notice and Response on Direction by Parties. The Reworking, Deepening or Plugging Back of a well completed as a producer of Unitized Substances may be Directed by the Parties owning such well. In such event, unless the well is owned by all the Parties and every Party has joined in such Direction, Unit Operator shall give written notice thereof to all the Parties, stating the projected depth of such Deepening or Plugging Back or the nature of the proposed Reworking and the estimated cost thereof, and within fifteen (15) days after the giving of such notice, any Party or Parties then electing to proceed with such Reworking, Deepening or Plugging Back shall give to Unit Operator written notice thereof.

18.4 Notice and Response on Well Not Completed as Producer. After a well Drilled hereunder has been drilled to its projected depth, but not completed as a producer, if abandonment of the well is Directed by the Party or Parties for whose account the well was Drilled, or if, in the absence of such Direction, Unit Operator decides to abandon such well, Unit Operator shall so notify all the Parties by telephone or telegram, except that such notice need not be given if the well was Drilled for the account of all the Parties, and every Party consents to abandonment and plugging of the well. If such notice is required, each Party electing to proceed with the Deepening or Plugging Back of the well shall so notify Unit Operator by telegram or by written notice delivered to Unit Operator within forty-eight (48) hours (exclusive of Saturday, Sunday or Holidays), after receipt of the notice given by Unit Operator. Likewise, if any Party desires to attempt to complete such well as a producer of Unitized Substances at its then depth, such Party shall have the right to do so as provided in Article 16.9 complying therewith.

18.5 Prior Rights of Parties. In application of Sections 18.2, 18.3 and 18.4 to a well not owned by all the Parties, if election to proceed with the Reworking, Deepening or Plugging Back of such well is made, as above provided, by a Party or Parties who participated in the initial drilling of the well, or whose relinquished interest therein has theretofore reverted, then, except with the written consent of such Party or Parties, no other Party shall have the right to participate in the Reworking, Deepening or Plugging Back of such well.

18.6 Conflict Between Deepening or Plugging Back or Attempting Completion. If any Party elects in accordance with Section 18.4 to attempt completion of a well at its then depth, such completion attempt shall be made for the account of the Party or Parties making such election notwithstanding election by any other Party or Parties to Deepen or Plug Back the well. If any Party elects to proceed with the Deepening of a well in accordance with Sections 18.2, 18.3 or 18.4 then (subject to the prior right of any Party or Parties electing to make a completion attempt in accordance with Section 18.4, if applicable) the well shall be deepened for the account of the Party or Parties making such election, notwithstanding electin by any other Party or Paraties to Plug Back the well. In either of the above mentioned events, if the completion attempt or the Deepening operation, as the case may be, does not result in completion of the well as a production of Unitized Substances, Unit Operator shall give written notice thereof to all the Parties in accordance with Section 18.4, which shall govern the rights of the Parties with respect to election to Deepen or Plug Back the well.

18.7 Effect of Election to Rework, Deepen or Plug Back and Limitation on Right. If any of the Parties elect to proceed with the Reworking, Deepening or Plugging Back of a well in accordance with Sections 18.2, 18.3 or 18.4, such Party or Parties (except any such Party who is not entitled to participate therein under Section 18.5) shall constitute the Drilling Party, and Unit Operator shall conduct such operation for the account of the Drilling Party; provided, however, that a well which is within an established Participating Area shall not be Deepened or Plugged Back to any pool or zone for which such participating area was established, except with the prior Approval of the Parties, on the giving of which all Parties shall be entitled to vote whether or not the well is owned by all the Parties.

18.8 Subsequent Election. Any Party who has the right to do so in accordance with Section 18.5, but who has not previously elected to participate in a Reworking, Deepening or Plugging Back operation with which any other Party has elected to proceed, as provided in Sections 18.2, 18.3 or 18.4, shall have the right to participate in such operation by written notice given to all other Parties at any time before operations for Reworking, Deepening or Plugging Back the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning such operation.

18.9 Relinquishment of Interest by Non-Drilling Parties. When a well is Reworked, Deepened or Plugged Back otherwise than for the account of all Parties, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all its operating rights and working interest in and to such well. If any Non-Drilling Party owns an interest in any materials and equipment in or appurtenant to the well, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of such materials and equipment; upon such payment the interest of such Non-Drilling Party in such materials and equipment shall be deemed relinquished to the Drilling Party. If the well after being Deepened or Plugged Back is completed as a producer of Unitized Substances, the operating rights and working interest so relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production obtained from the well, after such Reworking, Deepening or Plugging Back, which would have accrued to such Non-Drilling Party's Beneficial Interest, if the well had been Reworked, Deepened or Plugged Back for the account of all Parties (after deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B), shall equal the total of the following:

A. 100% of that portion of the Costs incurred for newly acquired surface equipment beyond the wellhead connection and in operating the well after such Reworking, Deepening or Plugging Back and up to such time which would have been charged to such Non-Drilling Party's Participating Interest had the well been Reworked, Deepened or Plugged Back for the account of all the Parties; and

B. 300% of (1) that portion of the Costs incurred in Reworking, Deepening or Plugging Back the well for newly acquired equipment in the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Reworked, Deepened or Plugged Back for the account of all the Parties and (2) the amount, if any, paid to such Non-Drilling Party as its share of the Salvage Value of materials and equipment in or appurtenant to the well as above provided in this section;

provided, however, that if such Non-Drilling Party did not, and the Drilling Party did, participate in the initial Drilling of the well and if the interest relinquished by it in connection therewith in accordance with Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party had not reverted to it before such Reworking, Deepening or Plugging Back, then for the purposes of Subdivision B above there shall be included in and deemed part of the costs incurred in the Reworking, Deepening or Plugging Back that portion (if any) of the unrecovered Costs incurred in the initial Drilling of the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been initially Drilled for the account of all the Parties; and provided further, that if the well is within a previously established participating area and is Reworked, Deepened or Plugged Back to a pool or zone for which such participating area was established, after obtaining the Approval of the Parties as above provided, then the amount specified in Subdivision B above shall be limited to three hundred percent (300%) of that portion of the unrecovered Costs incurred in the initial Drilling of the well down to such

pool or zone that would have been chargeable to such Non-Drilling Party's Participating Interest had the well been Drilled for the account of all Parties.

18.10 Effect of Reversion. Reversion to a Non-Drilling Party of the interest relinquished by it in connection with the Reworking, Deepening or Plugging Back of a well shall have the same effect as the reversion provided for in Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party.

18.11 Rights and Obligations of Drilling Parties. All Costs incurred in Reworking, Deepening or Plugging Back a well otherwise than for the account of all the Parties shall be borne by the Drilling Party and, subject to reversion to Non-Drilling Parties of their relinquished interests, such well, the materials and equipment therein and the Available Production therefrom shall be owned by the Drilling Party. If the Drilling Party includes two (2) or more Parties apportionment between them of Costs incurred in Reworking, Deepening or Plugging back the well, Available Production therefrom, and Lease Burdens shall be in accordance with subdivisions A, B, and C of Section 16.8 dealing with the Rights and Obligations of Drilling Party.

18.12 Attempted Completion. The attempted Completion of wells Deepened or Plugged Back to their projected depths, except wells Deepened or Plugged Back to a participating area, shall be governed by the provisions of Section 16.9, unless every Drilling Party has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Drilling Party.

ARTICLE 19
SEPARATE MEASUREMENT AND SALVAGE

19.1 Separate Measurement. If a well Drilled, Reworked, Deepened or Plugged Back otherwise than for the account of all the Parties is completed as a producer of Unitized Substances and if, within thirty (30) days after request, a method of measuring the production from such well that does not require additional facilities is not Approved by the Parties, then Unit Operator shall install such additional tankage, flow line or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party and treated as Costs incurred in operating such well.

19.2 Salvaged Materials. If any materials and equipment are salvaged from a well Drilled, Reworked, Deepened, Plugged Back and completed for production otherwise than for the account of all the parties before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Available Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 20
PLANS OF DEVELOPMENT

20.1 Submittal of Plans. Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the AO, and the Land Commissioner, and State Division in accordance with the Unit Agreement, and this Unit Operating Agreement, and the further provisions of this Article.

20.2 Proposal. Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at lease thirty (30) days before filing the same with the AO, and the Land Commissioner, and State Division. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

20.3 Objections to Plan. Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the AO, and the Land Commissioner, and State Division.

20.4 Revised Plan. If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the AO, and the Land Commissioner, and State Division a plan reflecting as nearly as practicable the various views expressed by the Parties.

20.5 Rejection of Plan. If a plan filed by Unit Operator as above provided is rejected by the AO, the Land Commissioner, or State Division, Unit Operator shall initiate a new plan in the same manner as provided in Section 20.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

20.6 Notice of Approval or Disapproval. If and when a plan has been approved or disapproved by the AO the Land Commissioner, or State Division, Unit Operator shall give prompt notice thereof to each Party.

20.7 Supplemental Plans. If any Party or Parties shall have elected to proceed with a Drilling, Reworking, Deepening, or Plugging Back operation in accordance with the provisions of this Agreement, and such operation is not provided for in the then current plan of development approved by the AO, and the Land Commissioner, and State Division, Unit Operator shall either (a) submit to the AO, and the Land Commissioner, and State Division for approval a supplemental plan providing for the conduct of such operation, or (b) request the AO, and the Land Commissioner, and State Division to consent to such operation, if such consent is sufficient.

20.8 Cessation of Operations Under the Plan. If any plan approved by the AO, and the Land Commissioner, and State Division provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the AO, and the Land Commissioner, and State Division.

ARTICLE 21
ENHANCED RECOVERY AND PRESSURE MAINTENANCE

21.1 Consent Required. Unit Operator shall not undertake any program of enhanced recovery or pressure maintenance involving injection of gas, water or other substances by any method, whether now known or hereafter devised without first obtaining the consent of not less than Eighty-Five per cent (85%) of the Participating Interests of all Parties. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 21.1, the conduct of such program shall be subject to supervision by the Parties as set forth in Article 7.

21.2 Above Ground Facilities. This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, de-waxing plant or other above ground facilities to process or otherwise treat Unitized Substances, other than such facilities as may be required for treating Unitized Substances in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 21.1.

ARTICLE 22
DISPOSITION OF PRODUCTION

22.1 Taking in Kind. Each Party shall, currently as produced, take in kind or separately dispose of its share of Available Production and pay Unit Operator for any extra expenditure necessitated thereby, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of all Available Production, and on all purchases or sales, each Party shall execute any division order or contract of sale pertaining to its share of Available Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

22.2 Failure to Take in Kind. If any Party fails to so take or dispose of its share, Unit Operator shall have the right, for the time being and subject to revocation at will by the Party owning same, to purchase for its own account or sell to others such share, at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Available Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Available Production not previously delivered by Unit Operator to others pursuant to this Section 22.2.

ARTICLE 23
DISPOSAL OF MATERIALS AND EQUIPMENT

23.1 Classification as Surplus. Unit Operator, by written notice to the Parties, may classify as surplus any materials and equipment owned by the Parties when deemed by it to be no longer needed in operations hereunder.

23.2 Division in Kind. Each Party shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind except junk and any item having a replacement cost less than $10,000. Said right may be exercised only by written notice to Unit Operator within thirty (30) days after classification as surplus of the materials to be taken in kind.

23.3 Sale to Parties. Surplus tubular goods and other items not divided in kind (other than junk and any item having a replacement cost of less than $10,000) shall be offered to the Parties and sold to the highest bidder or bidders.

23.4 Sale to Others. Surplus materials not disposed of in accordance with Sections 23.2 and 23.3 and junk materials shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 24
TRANSFERS OF INTEREST

24.1 Partial Transfer. Save and except as provided in Article 38.2 and 38.3 and 38.7, no Party shall assign, mortgage or transfer less than its entire Committed Working Interest and its entire interest under this agreement without first obtaining approval of the Parties.

24.2 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interest, it shall resign and a new Unit Operator shall be selected as provided in this agreement and the Unit Agreement.

24.3 Assumption of Obligations. No Party shall make any transfer of Committed Working Interest without making the same expressly subject to the Unit Agreement and this agreement and requiring the transferee in writing to assume and to agree to perform all obligations of the transferor under the Unit

Agreement and this agreement insofar as it relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

24.4 Effective Date. A transfer of Committed Working Interest shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 24.3, along with evidence satisfactory to Unit Operator of approval by the governmental authority having supervision over the Committed Working Interest transferred, where such approval is required. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Reworking, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 25
ABANDONMENT OF PRODUCING WELLS

25.1 Consent Required. A well which has been completed as a producer of Unitized Substances shall not be abandoned and plugged, nor shall the operation of such well for production from the formations or zones in which it has been completed be discontinued, except with the written consent of all Parties then owning the well or except as provided in Section 18.3 dealing with Notice and Response on Direction by Parties and the succeeding provisions of Article 18 dealing with Reworking, Deepening or Plugging Back.

25.2 Abandonment Procedure. If the abandonment of a well which has once produced is Directed by the Parties Unit Operator shall give written notice thereof to each party then having an interest in the well who did not join in such Direction. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the materials and equipment in or appurtenant to the well, less the reasonably estimated cost of plugging the well. Upon the making of such payment the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well and the area prescribed for such well by spacing order of state or governmental authority, or, if there is no such order, the area established for such well by the spacing pattern then in use in the field, or, if there is no such order or spacing pattern, then the forty (40) acre legal subdivision, or fractional lot or lots approximating the same, embracing such well, but only with respect to the formation or zone in which it is then completed, and all their interest in the materials and equipment in or appurtenant to the well. If there is more than one non-abandoning Party each shall be deemed to have acquired the operating rights and working interest so relinquished in the proportion that the Participating Interest of each such Party immediately prior to such relinquishment then bears to the total Participating Interests of all non-abandoning Parties.

25.3 Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for such well shall be operated by unit Operator for the account of the non-abandoning Party or Parties, who shall own all Available Production therefrom and shall bear all Lease Burdens and Costs and other Burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for the purposes set forth in Article 18), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well.

Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

25.4 Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging with six (6) months after relinquishment by the abandoning Parties of their interest therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties, at the value fixed therefor in accordance with Section 25.2. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within thirty (30) days after receipt of the notice given by Unit Operator in connection with such well in accordance with Section 18.2 dealing with Notice and Response on Discontinuance of Production from Producing Well.

ARTICLE 26
SURRENDER

26.1 Release from Obligations. At any time after the Drilling of the Initial Test Well or Wells any Party who is not then committed to participate in the Drilling, Reworking, Deepening or Plugging Back of a well within the Unit Area and who desires to be relieved of further obligation under this agreement may give to all other Parties written notice thereof. Such other Parties or any of them shall have the right at their option to take from such Party an assignment of all its Committed Working Interests and its entire interest under this agreement by giving to such Party a written notice of election so to do within thirty (30) days after receipt of the initial notice. If such election is made within said period the Party or Parties taking the assignment shall pay to the assigning Party its share of the Salvage Value of any salvable materials and equipment then owned by the Parties, less the reasonably estimated cost of plugging any well or wells in which the assigning Party then has an interest, such payment to be made on receipt of an assignment from the assigning Party of its said interests. If such assignment is taken by more than one Party the Committed Working Interest thereby acquired by them shall be apportioned among such Parties in proportion to their Participating Interests among themselves. If no Party elects to take such assignment within said thirty (30) day period the Parties shall join in termination of the Unit Agreement.

26.2 Right to Surrender Inside Participating Area. No Committed Working Interest shall be surrendered in whole or in part as to any lands within any Participating Area, without the written consent of all Parties.

26.3 Right to Surrender Outside Participating Area. Committed Working Interests covering land outside a Participating Area shall not be surrendered in whole or in part without the Approval of the Parties.

26.4 Procedure on Surrender or Release Outside Participating Area. Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any Participating Area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties notice thereof, describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party or Parties desiring to surrender an assignment of such Committed Working Interest by giving the Party or Parties desiring to surrender notice of election so to do within thirty (30) days after receipt of notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment.

If no Party elects to take such assignment within said thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same, if surrender thereof can be made in accordance with the Unit Agreement. Whenever a Party owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

26.5 Effect of Assignment or Surrender. An assignment made by any Party to another Party or Parties in accordance with Section 26.4 or a surrender of any Committed Working Interest as provided in this Article shall not effect any change in the Participating Interests or the Beneficial Interests of the Parties insofar as it relates to all lands within the Unit Area not covered by the assignment or surrender. However, from and after such assignment or surrender the lands covered thereby shall be deemed Segregated Lands and shall be subject to the provisions of Article 27 dealing with Segregated Lands.

26.6 Accrued Obligations. An assignment or surrender in accordance with this Article shall not relieve any Party of its liability for any obligation accrued hereunder prior to such assignment or surrender, or of obligation to bear its share of the Costs incurred in any Drilling, Reworking, Deepening or Plugging Back operation in which such Party has elected to participate prior to such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party under this Agreement and under the Unit Agreement.

ARTICLE 27
SEGREGATED LANDS

27.1 Exclusion From Agreement. Whenever any lands within the Unit Area become Segregated Lands in accordance with Section 26.5 dealing with Effect of Assignment or Surrender, such lands shall cease to be subject to this agreement but shall remain subject to the Unit Agreement.

27.2 Interests of Parties in Assigned Lands. Upon the making of an assignment referred to in Section 26.5, the assigning Party shall cease to have any interest in the lands which become Segregated Lands by reason thereof. Insofar as relates to such Segregated Lands, the Participating Interest and the Beneficial Interest of the assigning Party shall be deemed to have been transferred to and acquired by the Party or Parties receiving such assignment, each of whom (if more than one) shall be deemed to have acquired such interests so assigned in the proportion that its Participating Interest immediately prior to such assignment then bears to the total Participating Interests of all assignees. In addition, each Party retaining an interest in such Segregated Lands shall retain the same Participating Interest and Beneficial Interest therein as it had immediately prior to such assignment.

27.3 Operation of Lands Segregated by Assignment. All operations on lands which become Segregated Lands by reason of assignment pursuant to Section 26.5 shall be conducted by Unit Operator for the account and at the expense of the Party or Parties retaining interests therein. Unless otherwise agreed between Unit Operator and such Party or Parties, their respective rights and obligations with respect to such Segregated Lands shall be the same in all respects as if Unit Operator and such Party or Parties had entered into an agreement identical with this agreement but covering only such Segregated Lands, except that if two or more Parties retain interests in the Segregated Lands, the Participating Interest and the Beneficial Interest of each shall be determined in accordance with Section 27.2.

27.4 Operation of Lands Segregated by Surrender. All operations on lands which become Segregated Lands by reason of surrender and which remain committed to the Unit Agreement shall be carried on the Unit Operator for the account and at the expense of the Parties owning the working interests therein. All Lease Burdens shown on Exhibit B to the Unit Agreement on the effective date hereof payable on account of Unitized Substances produced from Segregated Lands shall be paid by the Unit Operator and shall be charged to and borne by the owners of the working interest in the Segregated Lands in proportion to their Beneficial Interests therein.

ARTICLE 28
CONTRACTION OR EXPANSION OF UNIT AREA

28.1 Contraction. In the event of contraction of the Unit Area as provided in Section 2 of the Unit Agreement, the lands excluded from the Unit Area shall be excluded from this agreement, but such exclusion shall not alter the Participating Interests or the Beneficial Interests of the parties as to lands remaining in the Unit Area.

28.2 Expansion. In the event of expansion of the Unit Area as provided in Section 2 of the Unit Agreement the lands added to the Unit Area shall not become subject to this agreement unless and until the owner or owners of the working interest in such lands become Parties to this agreement in accordance with Article 35 dealing with Subsequent Joinder, and until such time any reference to Unit Area shall not include such lands for the purposes of this agreement.

28.3 Approval Required. This Unit Operator shall not initiate any contraction or expansion of the Unit Area except with the Approval of the Parties first obtained.

ARTICLE 29
LIABILITY

29.1 Liability. The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

29.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this Agreement or the Unit Agreement be construed as creating a mining or other partnership ore association between the parties or as rendering them liable as partner or associates, except for State and Federal Income Tax purposes.

29.3 Election. The parties hereto agree not to elect to have any arrangement evidenced hereby excluded from the application of all or any part of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended, or similar provisions of any applicable State law. It is the intention of the parties hereto that the trade agreements set forth and incorporated herein in Sections 38.2 and 38.3 and the operation of this Unit under this Unit Operating Agreement is a single partnership for income tax purposes only and the parties hereto agree to be treated as a partnership, for income tax purposes only, under the provisions of the tax partnership attached hereto as Exhibit 8.

ARTICLE 30
NOTICES

30.1 Giving and Receipt. Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

30.2 Addresses. For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

ARTICLE 31
EXECUTION

31.1 Counterparts. This Agreement may be executed in counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

31.2 Ratification. This Agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this Agreement. Such ratification shall have the same effect as if the Party executing it had executed this Agreement or a counterpart hereof.

31.3 Effect of Signature. When this Agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other, and each Party theretofore or thereafter executing this Agreement shall thereupon become and remain bound hereby until the termination of this Agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this Agreement, then, at the expiration of said period, this Agreement shall terminate.

ARTICLE 32
SUCCESSORS AND ASSIGNS

32.1 Covenants. This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a convenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 33
HEADINGS FOR CONVENIENCE

33.1 Headings. The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

ARTICLE 34
EFFECTIVE DATE AND TERM

34.1 Effective Date. This Agreement shall become effective on the effective date of the Unit Agreement.

34.2 Term. The term of this Agreement shall be the same as the term of the Unit Agreement.

34.3 Effect of Termination. Termination of this Agreement shall not relieve any Party of its obligations accrued hereunder before such termination. Notwithstanding termination of this Agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the

Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this Agreement shall automatically terminate all rights and interests acquired by virtue of this Agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

ARTICLE 35
SUBSEQUENT JOINDER

35.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement, except as otherwise provided in Section 11.12 which deals with Joinder by True Owner.

35.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, subsequent joinder in the Unit Agreement and in this Agreement by any owner of Working Interest in land within the Unit Area who is not a Party shall be permitted upon such reasonable terms and conditions as may be approved by the Parties.

ARTICLE 36
WITHDRAWAL OF TRACTS

36.1 Restriction. Except as provided in this article no Party shall withdraw a tract from the Unit Area except with the written Approval or Direction of the Parties.

36.2 Required Withdrawal. If the owner of any substantial Lease Burden in a tract within the Unit Area fails to join in the Unit Agreement, upon Direction of the Parties in writing such tract shall be withdrawn from the Unit Area in accordance with the Unit Agreement, provided the time for such withdrawal has not expired. In such event if any Party or Parties owning a Committed Working Interest in such tract provide such indemnity as may be approved in writing by all other Parties, the Party or Parties owning Committed Working Interest in such tract shall not be required to withdraw it from the Unit Area, provided that all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

36.3 Action Before Effective Date. Any Approval or Direction provided for in this article may be given before the effective date of this agreement by the Parties who have executed the same.

ARTICLE 37
RIGHT OF APPEAL

37.1 Not Waived. Nothing contained in this Agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 38
OTHER PROVISIONS

Other provisions, if any, are:

38.1 Exhibits. The following are incorporated by reference.

Exhibit 1. Description of Unit Area

Exhibit 2. Accounting Procedure

Exhibit 3. Initial test well and responsibility for costs thereof.

Exhibit 4. Oil and Gas Lease

Exhibit 5. Insurance

Exhibit 6. Gas Balancing Agreement

Exhibit 7. Non-Discrimination and Certification of Non-Segregated Facilities

Exhibit 8. Tax Partnership

38.2 This Unit Operating Agreement is subject to the terms and conditions of that certain trade agreement between Hunt Oil Company and Exxon Corporation dated which is hereby incorporated by reference as if said agreement were set forth in total herein.

38.3 This Unit Operating Agreement is subject to the terms and conditions of that certain trade agreement between The Louisiana Land & Exploration Co. and Exxon Corporation dated August 1, 1983 which is hereby incorporated by reference as if said agreement were set forth in total herein.

38.4 Resignation or Removal of Unit Operator. Subject to the conditions and limitations of the Unit Agreement, Unit Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Unit Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit B of Unit Agreement, and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until approved by the AO and the Land Commissioner as provided in the Unit Agreement. However, a change of a corporate name or structure of Unit Operator or transfer of Unit Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Unit Operator.

38.5 Business Ethics Provision. The following provisions refer to more than just billing and revenue data used for accounting and financial reporting purposes and include information that is basic to the proper pricing of oil and gas production taken in kind by any Party hereto, as well as such information as is further reported by the Parties to the public and to various governmental agencies, including, but not limited to the accuracy of all types of data received from drilling and other contractors and sub-contractors that can have significant importance in the further recording and reporting processes of the Parties for such purposes, to-wit:

a. Unit Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name or on the behalf of the Parties, or any Party, hereto under the provisions of this agreeme to it.

b. Unit Operator agrees that all financial settlements, billings and reports rendered to the Parties, or any of them, as provided for in this Agreement and/or any amendments to it, will, to the best of Operator's knowledge and belief, reflect properly the facts about all activities and transactions handled for the accounts of the Parties, or any of them, which data may be relied upon as being complete and accurate in any further recording and reporting made by such Party or Parties, for whatever purpose.

c. Unit Operator agrees to notify each Party affected promptly upon discovery of any instance where Operator fails to comply with provision (a) above or where Operator has reason to believe that data covered by (b) above is no longer accurate and complete.

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

38.7 Affiliates. Any restrictions on assignments or on other transfers of interest hereunder shall not apply to a transfer by a party hereto to an "affiliate" of such party. As used here, "affiliate" includes any corporation, partnership, trust or other entity that, to the extent of at least 50%, directly or indirectly owns or controls, is owned or controlled by, and/or is under common ownership or control with such party thereof or is a limited partnership of which such party or other affiliate thereof is a general partner, and, in the case of Hunt Oil Company or any affiliate thereof which is a party hereto, includes Mrs. H. L. (Ruth Ray) Hunt, her descendants, and spouses of her descendants, and trusts therefor.

IN WITNESS WHEREOF this agreement has been executed by the undersigned parties as of the day and year first above written.

Date of Execution

_____

EXXON CORPORATION

By_____
H. J. Noble
Attorney in Fact

Address:

Exxon Company, U.S.A.
P. O. Box 1600
Midland, Texas 79702

ATTEST:_____
Secretary

As Unit Operator and Working Interest Owner

Date of Execution:

_____

_____
Address:

By_____
President

_____

ATTEST:_____
Secretary

_____

EXHIBIT 1

Attached to and made a part of the Dona Unit Operating Agreement dated November 15, 1983.

Description of Unit Area
Dona Ana County, New Mexico

T-23-S, R-3-W, N.M.P.M.
Sections 30, 31, 32, 33, 34

T-23-S, R-4-W, N.M.P.M.
Sections 17, 20, 21, 25, 26, 27, 28, 29, 33, 34, 35, 36

T-24-S, R-3-W, N.M.P.M.
Sections 3, 4, 5, 6, 7, 8, 9, 10, 15, 16, 17, 18

T-24-S, R-4-W, N.M.P.M.
Sections 1, 2, 3, 4, 10, 11, 12, 13, 14, 15

COPAS — 1974

Recommended by the Council of Petroleum Accountants Societies of North America.

KrautHill 601. TULSA 74101

EXHIBIT "2"

Attached to and made a part of the Dona Unit Operating Agreement dated November 15, 1983

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 thirty (30) ~~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%)~~ the limit most recently recommended by the Council of Petroleum Accountants Societies of North America.

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

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.

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:

(X) 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 (x) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 5,180.00
Producing Well Rate $ 518.00

(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 3 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 3

Attached to and made a part of the
UNIT OPERATING AGREEMENT
for the
DONA UNIT
DONA ANA COUNTY, NEW MEXICO
Dated November 15, 1983

INITIAL WELL TEST

A. LOCATION: The Initial Test Well shall be drilled at a location satisfactory to the parties sustaining the costs and expenses of such well and the AO if on Federal Land, or by the Land Commissioner, if on State land, or by the Division if on Fee land.

B. DEPTH: The Initial Test Well shall be drilled conformably with the terms of Article 9 of the Unit Agreement and such further depth if any as the parties sustaining the costs and expenses of such well agree.

C. COSTS: All costs and expenses incurred in connection with the Initial Test Well, including drilling, testing and completing into the tanks, if an oil producer, or through the gas separator if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by EXXON CORPORATION and such other parties hereto as agreed to bear such cost in accordance with separate agreement among themselves. Any contributions received toward the drilling of the Initial Test Well shall belong to the parties sustaining the costs of drilling the Initial Test Well.

D. TITLE EXAMINATION AREA: The title examination area for the Initial Test Well shall be an area surrounding the location of such well as may be designed by the Unit Operator.

E. COST OF TITLE EXAMINATION: The costs of title examination shall be charged as a cost of drilling the Initial Test Well.

F. SCHEDULE OF PARTICIPATING INTEREST IN INITIAL WELL: Notwithstanding anything to the contrary contained herein, and subject to the provisions of those trade agreements referred to in Article 38.2 and Article 38.3, Exxon Corporation shall bear all costs attributable to the participating interest of Hunt Oil Company and the Louisiana Land & Exploration Co. Further, Exxon Corporation shall bear the proportion of costs attributable to non-committed interests pursuant to the terms of the Dona Unit Agreement and Unit Operating Agreement.

062-0008A
PRODUCERS 88 (REV.) NEW MEXICO
WITH 640 ACRE POOLING PROVISION

EXHIBIT 4

Attached to and made a part of the Dona Unit Operating Agreement dated November 15, 1983.

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this _____ day of _____ 19____, between

Lessor (whether one or more), whose address is: _____

and _____, Lessee, WITNESSETH:

1. Lessor in consideration of _____ Dollars

($_____) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively to Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, sulphur, fissionable materials and all other minerals (whether or not similar to those mentioned), conducting exploration, geologic and geophysical tests and surveys, injecting gas, water and other fluids and air into subsurface strata, laying pipelines, establishing and utilizing facilities for the disposition of salt water, dredging and maintaining canals, building roads, bridges, tanks, telephone lines, power stations and other structures thereon, and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto necessary to Lessee in operations to produce, save, take care of, treat, transport and own said minerals, the following described land in Dona Ana County, New Mexico, to-wit:

Dona Unit

This lease also covers and includes all land and interest in land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said section or sections, grant or grants or in adjacent sections or grants. For the purpose of calculating rental payments hereunder, said land is estimated to contain _____ acres, whether it contains more or less.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term ~~of ten (10) years from the date hereof (called "primary term") and as long thereafter as oil, gas, sulphur, fissionable materials or other mineral is produced from said land or land pooled therewith.~~ contemporaneous with the Dona Unit Agreement and Unit Operating Agreement.

3. The royalties to be paid by Lessee are: (a) on oil, one eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipeline to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase, and Lessee may sell any royalty oil in its possession and pay Lessor the price received by Lessee for such oil computed at the well; (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of one-eighth of the gas so sold or used, provided that on gas sold by Lessee the market value shall not exceed the amount received by Lessee for such gas computed at the mouth of the well, and on gas sold at the well the royalty shall be one-eighth of the amount realized by Lessee from such sale; and (c) on fissionable materials and all other minerals mined and marketed, one-tenth either in kind or value at the well or mine, at Lessee's election, except that on sulphur mined or marketed, the royalty shall be Two Dollars ($2.00) per long ton. If the price of any mineral or substance upon which royalty is payable hereunder is regulated by any governmental agency, the market value or market price of such mineral or substance for the purpose of computing royalty hereunder shall not be in excess of the price which Lessee may receive and retain. Lessee shall have free from royalty or other payment the use of water, other than water from Lessor's wells or tanks, and of oil, gas and coal produced from said land in all operations which Lessee may conduct hereunder, including water injection and secondary recovery operations, and the royalty on oil, gas and coal shall be computed after deducting any so used. If Lessee drills a well on land covered by this lease or on land pooled therewith, which well is capable of producing oil or gas but such well is not being produced and this lease is not being maintained otherwise as provided herein, this lease shall not terminate, whether it be during or after the primary term, (unless released by Lessee) and it shall nevertheless be considered that oil or gas is being produced from the land covered by this lease. When the lease is continued in force in this manner, Lessee shall pay or tender as royalty to the parties who at the time of such payment would be entitled to receive royalty hereunder if the well were producing, or deposit to their credit in the depository bank as hereinafter provided a sum equal to 1/12 of the amount of the annual rental payable in lieu of drilling operations during the primary term on the number of acres subject to this lease at the time such payment is made for each calendar month, or portion thereof, thereafter during which said well is situated on said land, or on land pooled therewith, and this lease is not otherwise maintained, or this lease is not released by Lessee as to the land on which or the horizon, zone or formation in which the well is completed. The first payment of such sum shall be made on or before the first day of the calendar month after expiration of ninety (90) days from the date the lease is not otherwise maintained for all accruals to such date, and thereafter on or before the first day of each third calendar month for all accruals to each such date. Lessee's failure to pay or tender or to properly or timely pay or tender any such sum as royalty shall render Lessee liable for the amount due but it shall not operate to terminate this lease.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one year from the date hereof, this lease shall terminate as to both parties, unless on or before such date Lessee shall pay or tender (or make a bona fide attempt to pay or tender) to Lessor or to the credit of Lessor in _____ Bank at _____ the sum of one dollar per acre

~~Dollars~~ ($ 1.00/acre) (herein called "rental"), which shall cover the privilege of deferring commencement of drilling operations for a period of twelve (12) months. In like manner and upon like payment or tender annually, the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental under this paragraph and of royalty under Paragraph 3 on any well which is not being produced, hereinafter referred to as "shut-in royalty", may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto or to said bank on or before the date of payment. Such bank and its successors are Lessor's agent and shall continue as depository for all rental and shut-in royalty payable hereunder regardless of changes in ownership of said land, rental or shut-in royalty. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank or for any reason fail or refuse to accept rental or shut-in royalty, Lessee shall not be held in default for failure to make such payment or tender of rental or shut-in royalty until thirty (30) days after the party or parties entitled thereto shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payment or tender. If Lessee shall

make a bona fide attempt on or before any payment date to pay or deposit rental to a party or parties entitled thereto, according to Lessee's records, or to a party or parties who, prior to such attempted payment or deposit, have given Lessee notice in accordance with subsequent provisions of this lease of their right to receive rental, and if such payment or deposit shall be ineffective or erroneous in any regard, Lessee shall be unconditionally obligated to pay to such party or parties entitled thereto the rental properly payable for the rental period involved, and this lease shall not terminate but shall be maintained in the same manner as if such erroneous or ineffective rental payment or deposit had been properly made, provided that the erroneous or ineffective rental payment or deposit be corrected within thirty (30) days after receipt by Lessee of written notice by such party or parties of such error accompanied by such instruments as are necessary to enable Lessee to make proper payment. Failure to make proper payment or deposit of delay rental as to any interest in said land shall not affect this lease as to any interest therein as to which proper payment or deposit is made. The down cash payment is consideration for this lease according to its terms and shall not be allocated as rental for a period. Lessee may at any time, and from time to time, execute and deliver to Lessor, or to the depository bank, or file for record a release or releases of this lease as to any part or all of said land or of any mineral or subsurface interval or any depths thereunder and thereby be relieved of all obligations as to the released land, mineral, horizon, zone or formation. If this lease is released as to all minerals, horizons, zones and formations under a portion of said land, the delay rental, shut-in royalty and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

5. Lessee, at its option, is hereby given the right and power during or after the primary term while this lease is in effect to pool or combine the land covered by this lease, or any portion thereof, as to oil, gas and other minerals, or any of them, with any other land covered by this lease, and/or any other land, lease or leases in the immediate vicinity thereof, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate the leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil, gas or other mineral in and under and that may be produced from the premises. Units pooled for oil hereunder shall not substantially exceed in area 40 acres each plus a tolerance of 10% thereof, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee may pool or combine land covered by this lease or any portion thereof, as above provided as to oil in any one or more strata and as to gas in any one or more strata. Units formed by pooling as to any stratum or strata need not conform in size or area with units as to any other stratum or strata, and oil units need not conform as to area with gas units. Pooling in one or more instances shall not exhaust the rights of Lessee to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit; the unit shall become effective as provided in said instrument, or if said instrument makes no such provision, it shall become effective upon the date it is filed for record. Each unit shall be effective as to all parties hereto, their heirs, successors and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty or other rights in land included in such unit. Lessee may at its election exercise its pooling option as to oil, gas and other minerals before or after commencing operations for or completing an oil or gas well or well or mine for other mineral on the leased premises, and the pooled unit may include, but is not required to include, land or leases upon which a well or mine capable of producing oil, gas or other mineral in paying quantities has theretofore been completed or upon which operations for drilling of a well or mine for oil, gas or other mineral have theretofore been commenced. Operations for drilling on, or production of oil, gas or other mineral from any part of a pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this lease or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil, gas or other mineral from land covered by this lease whether or not the well or wells or mine be located on land covered by this lease, and the entire acreage constituting such unit or units, as to oil, gas or other minerals, or any of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease; provided that if after creation of a pooled unit, a well or mine is drilled on the unit area, other than on the land covered hereby and included in the unit, which well is not classified as the type of well for which the unit was created (oil, gas or other mineral as the case may be), such well or mine shall be considered a dry hole for purposes of applying the additional drilling and reworking and resumption of delay rental provisions of Paragraph 6 hereof. If an oil well on an oil unit, which includes all or a portion of the leased premises, is reclassified as a gas well, or if a gas well on a gas unit, which includes all or a portion of the leased premises, is reclassified as an oil well, the date of such reclassification shall be considered as the date of cessation of production for purposes of applying the additional drilling and reworking and resumption of delay rental provisions of Paragraph 6 hereof as to all leases any part of which are included in the unit other than the leased premises on which the well is located. For the purpose of computing royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil, gas or other minerals from each pooled unit, there shall be allocated to the land covered by this lease and included in said unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) a pro rata portion of the oil, gas or other minerals produced from the unit after deducting that used for operations on the unit. Such allocation shall be on an acreage basis — that is, there shall be allocated to the acreage covered by this lease and included in the pooled unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that pro rata portion of the oil, gas or other minerals produced from the unit which the number of surface acres covered by this lease (or in each separate tract) and included in the unit bears to the total number of surface acres included in the unit. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises. Royalties hereunder shall be computed on the portion of such production, whether it be oil, gas or other minerals, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. Production from an oil well will be considered as production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. Any pooled unit designated by Lessee in accordance with the terms hereof may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time before commencement of operations for drilling or after completion of a dry hole or cessation of production on said unit.

6. If Lessee shall drill a dry hole or holes on said land, or on acreage pooled therewith, and this lease is not being maintained otherwise as provided herein, or if oil, gas or other mineral is discovered and not produced for any cause, or if the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within sixty (60) days thereafter and continues drilling or reworking operations on said well or any additional well with no cessation of more than sixty (60) consecutive days, or if it be within the primary term, commences or resumes the payment or tender of rental or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of sixty (60) days from the date of completion of dry hole, or discovery of oil, gas or other mineral, or cessation of production and continues drilling or reworking operations on said well or any additional well with no cessation of more than sixty (60) consecutive days. If at any time subsequent to sixty (60) days prior to the beginning of the last year of the primary term and prior to the discovery of oil, gas or other mineral on said land, or on acreage pooled therewith, Lessee should drill a dry hole thereon, no rental payment or operations are necessary in order to keep this lease in force during the remainder of the primary term. If at the expiration of the primary term, oil, gas or other mineral is not being produced on said land, or on acreage pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil, gas or other mineral so long thereafter as oil, gas or other mineral is produced from said land or acreage pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in by Lessee or any other operator on adjacent land and within three hundred thirty (330) feet of and draining the leased premises, or acreage pooled therewith, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

7. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When necessary for utilization of the surface for some intended use by Lessor and upon request of Lessor or when deemed necessary by Lessee for protection of the pipeline, Lessee will bury pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.

8. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee, including, but not limited to, the location and drilling of wells and the measurement of production; and no change or division in such ownership shall be binding on Lessee until forty-five (45) days after Lessee shall have been furnished by registered U. S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. In the event of the death of any person entitled to rentals hereunder, Lessee may pay or tender such rentals to the credit of the deceased or the estate of the deceased until such time as Lessee is furnished with proper evidence of the appointment and qualification of an executor or administrator of the estate, or if there be none, until Lessee is furnished with evidence satisfactory to it as to the heirs or devisees of the deceased and that all debts of the estate have been paid. If at any time two or more persons be entitled to participate in rental payable hereunder, Lessee may pay or tender said rental jointly to such persons or to their joint credit in the depository bank; or, at Lessee's election, the proportionate part of rental to which each participant is entitled may be paid or tendered to him separately or to his separate credit in said depository; and payment or tender to any participant of his portion of the rental hereunder shall maintain this lease as to such participant. In event of assignment of this lease as to a segregated portion of said land, rental hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

9. Breach by Lessee of any obligation hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence compliance with obligations imposed by this lease. After discovery of oil, gas or other mineral in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator, but in

discharging this obligation as to oil and gas it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder plus a tolerance of 10% thereof and capable of producing oil in paying quantities and one well per 640 acres plus a tolerance of 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or otner lien upon said land, either in whole or in part, and if Lessee does so, it shall be subrogated to such lien with right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. When required by state, federal or other law, Lessee may withhold taxes with respect to rental, royalty and other payments hereunder and remit the amounts withheld to the applicable taxing authority for the credit of Lessor. Without impairment of Lessee's rights under the warranty in event of failure of title, if Lessor owns an interest in the oil, gas or other minerals on, in or under said land less than the entire fee simple estate, whether or not this lease purports to cover the whole or a fractional interest, the royalties, shut-in royalties and rentals to be paid Lessor shall be reduced in the proportion that his interest bears to the whole and undivided fee and in accordance with the nature of the estate of which Lessor is seized. Should any one or more of the parties named above as Lessor fail to execute this lease, it shall nevertheless be binding upon the party or parties executing same. Failure of Lessee to reduce rental paid hereunder shall not impair the right of Lessee to reduce royalties.

11. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or on land pooled therewith or from producing oil, gas or other mineral therefrom or from land pooled therewith by reason of scarcity or of inability to obtain or to use equipment or material, or because of strikes, war, insurrection or civil disturbance, or by operation of force majeure, any federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil, gas or other mineral from the leased premises or land pooled therewith, and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

12. Each singular pronoun herein shall include the plural whenever applicable.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

WITNESS: [redacted]

_____ _____

_____ _____

_____ _____
Lessor.

_____
Lessee.

By_____
Agent.

THE STATE OF NEW MEXICO }
County of_____ } ss.

On this the _____day of_____, 19_____, before me personally appeared_____

_____to me personally known to be the person___ described in and who executed the foregoing instrument, and acknowledged that_____executed the same as_____free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal on the day and year in this certificate first above written.

_____

My Commission expires_____, 19_____. _____

THE STATE OF NEW MEXICO }
County of_____ } ss.

On this the _____day of_____, 19_____, before me personally appeared_____

_____to me personally known to be the person___ described in and who executed the foregoing instrument, and acknowledged that_____executed the same as_____free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal on the day and year in this certificate first above written.

_____

My Commission expires_____, 19_____. _____

PRODUCERS 88 NEW MEXICO
WITH 40/640 ACRES POOLING PROVISION

No._____

New Mexico
Oil, Gas and Mineral Lease

FROM

_____

_____

TO

_____

_____

Dated_____, 19____

No. Acres_____

_____County, New Mexico

Term_____

This instrument was filed for record on the_____

day of_____, 19____, at

_____o'clock_____M., and duly recorded in

Book_____, Page_____

of the_____records of this office.

_____
County Clerk

By_____, Deputy

When recorded return to

_____

EXHIBIT 5

To Unit Operating Agreement dated November 15, 1983, for the Dona Unit.

Operator, during the term of this Agreement, shall comply with the provisions of Article 9.2 hereof. No other insurance will be carried by Operator for benefit of the Joint Account.

All damage or injury to the Contract Area property thereon shall be borne by the parties hereto in proportion to their interests therein. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death from third parties or injury to or destruction of property of third parties resulting from the operations conducted hereunder shall be borne in proportion to their interests in the Contract Area property, and each party individually may acquire such insurance as it deems proper to protect itself against such claims. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.