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April 28, 1989

HAND-DELIVERED

Case 9671

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: In the Matter of the Application of Benson-Montin-Greer Drilling Corp. for Amendment of Order R-8344 Which Statutorily Unitized the Canada Ojitos Unit, Rio Arriba County, New Mexico

Dear Mr. LeMay:

Enclosed in triplicate is the above-referenced application of Benson-Montin Greer Drilling Corp. Benson-Montin Greer Drilling Corp. respectfully requests that this matter be placed on the docket for the Examiner hearings scheduled on May 10, 1989.

Very truly yours,

William F. Carr

WILLIAM F. CARR

WFC:mlh
Enclosures
cc w/enclosures: Mr. Albert R. Greer
Benson-Montin-Greer Drilling Corp.

W. Thomas Kellahin, Esq.

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF BENSON-MONTIN-GREER DRILLING CORP. FOR AMENDMENT OF ORDER R-8344 WHICH STATUTORILY UNITIZED THE CANADA OJITOS UNIT, RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. 9671

APPLICATION

COMES NOW BENSON-MONTIN-GREER DRILLING CORP., by and through its undersigned attorneys, and pursuant to the provisions of the Statutory Unitization Act (§§ 70-7-1 through 70-7-21, N.M.S.A. [1978]), hereby applies to the New Mexico Oil Conservation Division for an Order Amending Order R-8344 to include certain additional lands located in Rio Arriba County, New Mexico, and in support of its application, states:

1. Benson-Montin-Greer Drilling Corp. is the operator of the Canada Ojitos Unit and is engaged in the business of producing and selling oil and gas in New Mexico.

2. On November 7, 1986, the Commission entered Order R-8344 (Case 8952) which approved the application of Benson-Montin-Greer Drilling Corp. for statutory unitization of the Canada Ojitos Unit Area covering 69,887.235 acres, more or less.

3. Sufficient ratifications of the plan for unit operations having been obtained by Benson-Montin-Greer Drilling Corp. as required by § 70-7-8 N.M.S.A. (1978), statutory unitization of the

Canada Ojitos Unit became effective at 7:00 a.m. on January 1, 1989.

4. The additional acreage which Benson-Montin-Greer seeks to include in this statutory unit by this application consists of the E/2 of Section ~~13~~ 12 Ed, Township 25 North, Range 2 West, Rio Arriba County, New Mexico. Inclusion of this acreage will result in a Unit Area which will consist of approximately 69,887.235 acres, more or less, of federal, state and fee lands in Rio Arriba County, New Mexico, ("Expanded Unit Area") and is more particularly described on Exhibit A attached hereto and incorporated herein by reference. Benson-Montin-Greer Drilling Corp. seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the Expanded Unit Area.

5. The vertical limits of the formation to be included within the proposed Expanded Unit Area means that interval which is commonly known as the Mancos formation which is a continuous stratigraphic interval occurring between the base of the Mesaverde formation and the top of the Graneros member and which is the same formation that was encountered between the logged depths of 6968 feet and 7865 feet in the Canada Ojitos 0-9 Well (previously the Bolack-Greer No. 1 Bolack) located 1080 feet from the South line and 1920 feet from the East line of Section 9, Township 26 North, Range 1 West, N.M.P.M., Rio Arriba County, New Mexico, as recorded on the Schlumberger Induction Electrical Log run on July 18, 1963.

6. The portion of the reservoir involved in this application has been reasonably defined by development.

7. The type of operations being conducted in this unit is pressure maintenance.

8. Attached to this application as Exhibit B and incorporated herein by reference is a copy of the proposed plan of unitization which Benson-Montin-Greer Drilling Corp. considers fair, reasonable and equitable.

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

10. Benson-Montin-Greer Drilling Corp. further states:

a. That the unitized management, operation and further development of the Expanded Unit Area in the Mancos formation is reasonably necessary in order to effectively carry on pressure maintenance operations and to substantially increase the ultimate recovery of oil from the unitized portion thereof.

b. The unitized methods of operation applied to the Expanded Unit Area are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the unitized portion of the pool than would otherwise be recovered.

c. That the estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil so recovered plus reasonable profit.

d. That such unitization and adoption of unitized methods of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the portion of the pool directly affected.

e. That Benson-Montin-Greer Drilling Corp., as operator, has made a good faith effort to secure voluntary unitization within the portion of the pool affected by this application.

f. That the participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

11. Approval of the statutory unitization of the Expanded Unit Area for the Canada Ojitos Unit is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Benson-Montin-Greer Drilling Corp. respectfully requests that this application be set for hearing before a Division Examiner on May 10, 1989 and, after notice and hearing as required by law and the rules of the Division, the Division enter its Order granting this application.

Respectfully submitted,

CAMPBELL & BLACK, P.A.

By: _____
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR BENSON-MONTIN-GREER DRILLING CORP.

EXHIBIT A

CANADA OJITOS UNIT
RIO ARRIBA COUNTY, NEW MEXICO

EXPANDED UNIT AREA

TOWNSHIP 24 NORTH, RANGE 1 EAST, N.M.P.M.

Sections 6 and 7:	All
Section 8:	W/2
Section 17:	W/2
Section 18:	All
Section 19:	N/2
Section 20:	NW/4

TOWNSHIP 24 NORTH, RANGE 1 WEST, N.M.P.M.

Sections 1 through 15:	All
Section 23:	N/2
Section 24:	N/2

TOWNSHIP 25 NORTH, RANGE 1 EAST, N.M.P.M.

Sections 5 through 8:	All
Sections 17 through 20:	All
Section 29:	W/2
Sections 3 and 31:	All

TOWNSHIP 25 NORTH, RANGE 1 WEST, N.M.P.M.

Sections 1 through 36: All

TOWNSHIP 25 NORTH, RANGE 2 WEST, N.M.P.M.

Section 12: E/2

TOWNSHIP 26 NORTH, RANGE 1 EAST, N.M.P.M.

Section 19:	All
Section 20:	W/2
Sections 29 through 32:	All

TOWNSHIP 26 NORTH, RANGE 1 WEST, N.M.P.M.

Sections 1 through 36: All

The "Unitized Formation" shall mean that subsurface portion of the Unit Area known as the Mancos formation in the interval that was encountered between the logged depths of 6968 feet in the Canada Ojitos 0-9 Well (previously the Bolack-Greer No. 1 Bolack) located 1080 feet from the South line and 1920 feet from the East line of Section 9, Township 26 North, Range 1 West, N.M.P.M., Rio Arriba County, New Mexico, as recorded on the Schlumberger Induction Electrical Log run on July 18, 1963.

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

CAÑADA OJITOS UNIT AREA

COUNTY OF RIO ARRIBA

STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the first day of April, 1963, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

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

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

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations,

including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked exhibit A is hereby designated and recognized as constituting the unit area, containing 35,829.84 acres, more or less.

Exhibit A shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" and not less than six copies of the revised exhibits shall be filed with the Supervisor.

The above-described unit area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this agreement, or shall be contracted to exclude lands not within any participating area whenever such expansion or contraction is necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director," after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably

the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor, and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with the Unit Operator, together with an application in sufficient number, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Director, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of unitized lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent in instances of irregular surveys, however, unusually large lots or tracts shall be considered in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the purpose of elimination under this subsection), no parts of which are entitled to be in a participating area within 5 years after the first day of the month following the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of the first day thereafter, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless at the expiration of said 5-year period diligent drilling operations are in progress on unitized lands not entitled to participation, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well, except that the time allowed between such wells shall not expire earlier than 30 days after the expiration of any period of time during which drilling operations are prevented by a matter beyond the reasonable control of unit operator as set forth in the section hereof entitled "Unavoidable Delay"; provided that all legal subdivisions of lands not in a participating area and not entitled to become participating under the

applicable provisions of this agreement within 10 years after said first day of the month following the effective date of said first initial participating area shall be eliminated as above specified. Determination of creditable "Unavoidable Delay" time shall be made by unit operator and subject to approval of the Director. The unit operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Director and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the current unitized working interests and 60% of the current unitized basic royalty interests (exclusive of the basic royalty interests of the United States), on a total-nonparticipating-acreage basis, respectively, with approval of the Director, provided such extension application is submitted to the Director not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

4. UNIT OPERATOR. Bolack-Greer, Inc., is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and

terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Director, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor unit operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of unit operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Director.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove

provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been filed with the Supervisor. If no successor Unit Operator is selected and qualified as ~~herein~~ provided, the Director at his election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between the

unit agreement and the unit operating agreement, this unit agreement shall prevail. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor, prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Gallup or Dakota formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 7650 feet for the Gallup and 9000 feet for the Dakota. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor or until it is reasonably proved that the unitized

land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director may modify the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Director may, after reasonable notice to the Unit Operator, and each working interest owner, lessee, and lessor at their last known addresses, declare this unit agreement terminated.

Notwithstanding anything in this Unit Agreement to the contrary except Section 25 (Unavoidable Delay), the Unit Operator shall drill three wells, namely, two wells to test the Gallup formation and one well to test the Dakota formation. The Unit Operator may select the order of drilling said three wells. At the Operator's election, one of the wells to test the Gallup formation may be satisfied by the deepening of an abandoned well in the $SE\frac{1}{4}$ of Section 9, Township 26 North, Range 1 West. The first well shall be commenced not less than six months after approval of this unit agreement, and the subsequent obligation wells must be commenced not later than six months after completion of the preceding well, regardless of whether it is a producer or a dry hole. Any unit well commenced after October 1, 1962, will count towards satisfying the three-well program even if approval of the unit agreement is at a later date. The only extension of time the Director may grant for meeting the critical dates in this paragraph shall be based upon severe weather or other conditions beyond the control of the Unit Operator, and shall be limited to a single extension of not more than three months for each well after the first. Nevertheless, in the event drilling of any of said three wells has not been commenced timely, this unit agreement shall automatically terminate effective the first day of the month following the default.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor an acceptable plan of development and operation for the unitized land which,

when approved by the Supervisor, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor is authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor, the Unit Operator shall submit for approval by

the Director a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all unitized land then regarded as reasonably proved to be productive of unitized substances in paying quantities; all lands in said schedule on approval of the Director to constitute a participating area, effective as of the date of completion of such well or the effective date of the unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of the initial participating area. Said schedule also shall set forth the percentage of unitized substances to be allocated as herein provided to each unitized tract in the participating area so established, and shall govern the allocation of production from and after the date the participating area becomes effective. A separate participating area shall be established in like manner for each separate pool or deposit of unitized substances or for any group thereof produced as a single pool or zone, and any two or more participating areas so established may be combined into one with the consent of the owners of all working interests in the lands within the participating areas so to be combined, on approval of the Director. The participating area or areas so established shall be revised from time to time, subject to like approval, whenever such action appears proper as a result of further drilling operations or otherwise to include additional land then regarded as reasonably proved to be productive in paying quantities, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the percentage of allocation shall also be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Director. No land shall be excluded from a participating area on account of depletion of the unitized substances.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Director as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby may be impounded in a manner mutually acceptable to the owners of working interests, except royalties due the United States, which shall be determined by the Supervisor and the amount thereof deposited, as directed by the Supervisor, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located ~~so~~ long as such land is not within a participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth

or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as constituted at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion in a participating area of the land upon which such well is situated, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and any State and all royalty owners who, under existing contract, are entitled to take in kind a share of

the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Supervisor, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases

committed hereto shall be paid by working interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations were within the time therein specified commenced upon the land covered thereby or rentals paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, or, with prior consent of the Director, pursuant to applicable regulations pay a fair and reasonable compensatory royalty as determined by the Supervisor.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or

revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

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

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land.

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to

the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the ~~under-lyi~~ng lease as such term is herein extended.

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

(h) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated

in proportion to the acreage of the respective tracts.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary or his duly authorized representative and shall terminate five (5) years from said effective date unless

(a) such date of expiration is extended by the Director, or

(b) it is reasonably determined prior to the expiration of the fixed term of any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Director, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the owners of working interests signatory hereto,

with the approval of the Director; notice of any such approval to be given by the Unit Operator to all parties hereto.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any state-wide voluntary conservation or allocation program, which is established, recognized, and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and to appeal from orders issued under the regulations of said Department or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

24. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of section 301(1) to (7) inclusive, of Executive Order 10925 (26 F. R. 1977), which are hereby incorporated by reference in this agreement.

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial

interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice to the Director and the Unit Operator prior to the approval of this agreement by the Director. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Director.

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

interest in the lands within the above-described unit area.

30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party in any lease, sub-lease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party shall forfeit such rights and no further benefits from operation hereunder as to said land shall accrue to such party, unless within ninety (90) days thereafter said party shall execute this agreement and the unit operating agreement as to the working interest acquired through such surrender, effective as though such land had remained continuously subject to this agreement and the unit operating agreement. And in the event such agreements are not so executed, the party next in the chain of title shall be and become the owner of such working interest at the end of such ninety (90) day period, with the same force and effect as though such working interest had been surrendered to such party.

If as the result of any such surrender or forfeiture the working interest rights as to such lands become vested in the fee owner of the unitized substances, such owner may:

(1) Execute this agreement and the unit operating agreement as a working interest owner, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(2) Again lease such lands but only under the condition that the holder of such lease shall within thirty (30) days after such lands are so leased execute this agreement and the unit operating agreement as to each participating area theretofore established hereunder, effective as though such land had remained continuously subject to this agreement and the unit operating agreement.

(3) Operate or provide for the operation of such land independently of this agreement as to any party thereof or any oil or gas deposits therein not then included within a participating area.

If the fee owner of the unitized substances does not execute this

agreement and the unit operating agreement as a working interest owner or again lease such lands as above provided with respect to each existing participating area, within six (6) months after any such surrender or forfeiture, such fee owner shall be deemed to have waived the right to execute the unit operating agreement or lease such lands as to each such participating area, and to have agreed, in consideration for the compensation hereinafter provided, that operations hereunder as to any such participating area or areas shall not be affected by such surrender.

For any period the working interest in any lands are not expressly committed to the unit operating agreement as the result of any such surrender or forfeiture, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective participating working interest ownerships in any such participating area or areas, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized, as to such participating area or areas.

Upon commitment of a working interest to this agreement and the unit operating agreement as provided in this section, an appropriate accounting and settlement shall be made, to reflect the retroactive effect of the commitment, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered working interest during the period between the date of surrender and the date of recommitment, and payment of any moneys found to be owing by such an accounting shall be made as between the parties then signatory to the unit operating agreement and this agreement within thirty (30) days after the recommitment. The right to become a party to this agreement and the unit operating agreement as a working interest owner by reason of a surrender or forfeiture as provided in this section shall not be defeated by the nonexistence of a unit operating agreement and in the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

Nothing in this section shall be deemed to limit the right of joinder or

subsequent joinder to this agreement as provided elsewhere in this agreement. The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

33. FOREST LAND STIPULATION. Notwithstanding any other terms and conditions contained in this agreement, all of the stipulations and conditions of the individual leases between the United States and its lessees or their successors or assignees embracing lands within the unit area included for the protection of lands or functions under the jurisdiction of the Secretary of Agriculture shall remain in full force and effect the same as though this agreement had not been entered into, and no modification thereof is authorized except with the consent in writing of the Regional Forester, United States Forest Service, 517 Gold Avenue, N. W., Albuquerque, New Mexico.

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

CANADA OJITOS UNIT AREA

RIO ARRIBA COUNTY, NEW MEXICO

UNIT OPERATOR

Attest:

Secretary

BOLACK-GREER, INC.

By: President

ADDRESS:

158 Petroleum Center Building

Farmington, New Mexico

STATE OF New Mexico)
: SS
COUNTY OF San Juan)

The foregoing Unit Agreement was acknowledged before me this 22nd day of April, 1963, by Tom Bolack, the President, of Bolack-Greer, Inc, a New Mexico corporation, on behalf of said corporation.

Notary Public

My commission expires 8-20-1966.

CERTIFICATION--DETERMINATION

14-08-0001 8526

Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. secs. 181, et seq., and delegated to the Director of the Geological Survey pursuant to Departmental Order No. 2365 of October 8, 1947, I do hereby:

A. Approve the attached agreement for the development and operation of the Cañada Ojitos Unit Area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated JUN 19 1963.

Acting Director, United States Geological Survey

AMENDMENT TO

UNIT AGREEMENT

CAÑADA OJITOS UNIT AREA

COUNTY OF RIO ARRIBA

STATE OF NEW MEXICO

THIS AMENDMENT made as of the 1st day of January, 1969, by the parties who execute or ratify this amendment or a counterpart thereof,

W I T N E S S E T H :

WHEREAS, the parties hereto have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE CAÑADA OJITOS UNIT AREA, COUNTY OF RIO ARRIBA, STATE OF NEW MEXICO, dated as of the 1st day of April, 1963, effective June 19, 1963, the date approved by the United States Geological Survey, and designated Agreement No. 14-08-0001 8526, hereinafter referred to as the "Unit Agreement"; and

WHEREAS, the parties who execute ~~and~~ ratify this amendment, or a counterpart hereof, desire to amend Sections 11 and 12 of the Unit Agreement;

NOW, THEREFORE, in consideration of the mutual benefits resulting, IT IS AGREED that Sections 11 and 12 of the Unit Agreement be, and the same are hereby, amended and revised as follows:

Section 11:

On Page 10, Line 22 of the approved Unit Agreement, after the word "quantities" insert the phrase "or necessary to unit operations", and after the word "as" insert the phrase "unnecessary to unit operations or".

On Page 10, Line 32 of the approved Unit Agreement, after the word "quantities" insert the phrase "or necessary to unit operations".

Section 12:

On Page 12, Line 1 of the approved Unit Agreement, between the word "otherwise" and the period insert the language "and the allocation of production

to land added to a participating area on the basis of its importance to unit operations may be upon such equitable basis as may be approved by the Director".

This amendment shall be binding upon all the parties who execute or ratify the same retroactively to the effective date hereof, even though it is not executed by all of the parties to the original Unit Agreement, and this amendment shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

This amendment may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have executed this amendment as of the day and year first above written, and have set opposite their names the date of such execution.

DATE:

BENSON-MONTIN-GREER DRILLING CORP.

_____ BY: _____
President

ATTEST:

_____
Secretary

_____
Tom Bolack

1-30-69 _____
John R. Anderson

AMCO, INC.

1-30-69 BY: _____

Approved OCT 31 1969

Effective JAN 1 1969

ATTEST:

DATE:

3-3-69 — F. H. Carpenter

Albert R. Greer

GREER ENTERPRISES LTD.

BY: _____
General Partner

2-13-69 — Bill L. Harbert

Feb 5, 1969 — Jack London, Jr.

MONTIN-HARBERT PIPELINE CONSTRUCTION CO., ~~INC.~~

Feb 17 1969 — BY: _____
President

ATTEST:

Secretary

2-7-69 — A. C. Montin

Feb 17 1969 — Wm. V. Montin

1-31-69 — Jessie Stanley

1-29-69 — Virgil L. Stoabs

STATE OF NEW MEXICO)
) SS.
COUNTY OF SAN JUAN)

Acknowledged before me this 24th day of [illegible], 1969, by ALBERT R. GREER, President of BENSON-MONTIN-GREER DRILLING CORP., on behalf of said corporation.

My Commission Expires:
Aug 18, 1971

Virginia Yarbrough
Notary Public

STATE OF NEW MEXICO)
) SS.
COUNTY OF SAN JUAN)

Acknowledged before me this 13th day of March, 1969, by TOM BOLACK.

My Commission Expires:
Aug. 18, 1971

Virginia Yarbrough
Notary Public

STATE OF NEW MEXICO)
) SS.
COUNTY OF SAN JUAN)

Acknowledged before me this 30th day of January 1969, by JOHN R. ANDERSON.

My Commission Expires:
Aug. 18, 1971

Virginia Yarbrough
Notary Public

STATE OF NEW MEXICO)
) SS.
COUNTY OF SAN JUAN)

Acknowledged before me this 30th day of January 1969, by JOHN R. ANDERSON, President of AMCO, INC., on behalf of said corporation.

My Commission Expires:
Aug 18, 1971

Virginia Yarbrough
Notary Public

STATE OF TEXAS)
) SS.
COUNTY OF [illegible])

Acknowledged before me this 5th day of [illegible], 1969, by F. H. CARPENTER.

My Commission Expires:
[illegible]

[illegible]
Notary Public

STATE OF NEW MEXICO)
) SS.
COUNTY OF SAN JUAN)

Acknowledged before me this 29th day of January, 1969, by ALBERT R. GREER, individually, and as General Partner of GREER ENTERPRISES, LTD., a Limited Partnership.

My Commission Expires:
Aug 18, 1971

Notary Public

STATE OF ~~OKLAHOMA~~ Alabama)
) SS.
COUNTY OF ~~OKLAHOMA~~ Jefferson)

Acknowledged before me this 18th day of Feb, 1969, by BILL L. HARBERT.

My Commission Expires:
April 27 1970

Notary Public

STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

Acknowledged before me this 5th day of February, 1969, by JACK LONDON, JR.

My Commission Expires:
February 18, 1971

Notary Public

STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

Acknowledged before me this 17th day of February, 1969, by WM. V. MONTIN, President of MONTIN-HARBERT PIPELINE CONSTRUCTION CO., INC., on behalf of said corporation.

My Commission Expires:
February 18 1971

Notary Public

STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

Acknowledged before me this 7th day of February, 1969, by A. C. MONTIN.

My Commission Expires:
February 5 1972

Notary Public

UNIT OPERATING AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

CANADA OJITOS UNIT AREA,

COUNTY OF RIO ARRIBA

STATE OF NEW MEXICO

This Unit Operating Agreement for the captioned unit comprises the following five divisions:

I. THIS INTRODUCTORY PAGE

II. TABLE OF CONTENTS (2 pages)

III. THE BASIC AGREEMENT (36 articles of standard provisions) (B-M-G 1968 second revision) (Pages 1 to 15)

IV. OTHER PROVISIONS CONSISTING OF THE FOLLOWING ARTICLES:

37. No obligation to represent other parties before the Federal Energy Regulatory Commissio

38. Subsequently Created Lease Burdens

39. Treatment of Non-Committed Lands

40. Superiority of Unit Operating Agreement

41. Additional "other provisions", If any

41.1 Unpaid Unit "Costs"

41.2 Restoration in Event of Overpayment for Production Not Taken in Kind

41.3 Other Provisions regarding WISP:

A. Costs (refers to Article 6.4)

B. Correlative rights regarding WISP production (refers to Article 6.4)

C. Extinguishment of WISP provisions in event of secondary recovery or pressure maintenance (refers to Articles 25 and 6.4)

41.4 No Casing Point Election for Mancos Wells (refers to Article 4)

41.5 Recognition of Inflation in Investment Adjustment (refers to Article 13)

V. EXHIBITS AS FOLLOWS:

Exhibit A - Identifying, if applicable, variable provisions of Articles 6, 12, 25 and Exhibit 4

Part I - as to Article 6 (WISP)

Part II - as to Article 12.2(b) - exception wells

Part III - as to Article 25.1 - Voting percent for secondary Recovery

Part IV - As to Exhibit 4 - minimum sizes of tracts for drilling blocks

Exhibit 1 - Description of Unit Area (referred to in first recital)

Exhibit 2 - Accounting Procedure (referred to in Sections 1.4 and 1.18)

Exhibit 3 - Initial Test Well (referred to in Sections 1.13, 2.1, 3.1 and 3.2)

Exhibit 4 - Part 1: Drilling of Exploratory Wells

Part 2: Attempted Completion, Deepening, Plugging Back and Abandonment

Exhibit 5 - Insurance (referred to in Sections 16.2A, 16.2B and 16.2C)

Exhibit 6 - Non-Discrimination: Executive Order 11246 (30F.R. 12319), Section 202

Other Exhibits, if any

Type log attached to back cover: reference identification of "Main Mancos formation" defined on Page 1, referred to in 41.4.

(For purposes of identification this Unit Operating Agreement is given Code Number COUOA-3181, which code number appears at the bottom of any page of the Unit Operating Agreement or its exhibits which require identification of variables, or on which a change or modification from the printed form has been made.

EXHIBIT C

EXHIBIT A

ATTACHED TO AND MADE A PART OF
THAT CERTAIN AGREEMENT ENTITLED

UNIT OPERATING AGREEMENT
CANADA OJITOS UNIT
RIO ARRIBA COUNTY, NEW MEXICO

DATED MARCH 1, 1981

This Exhibit A comprises 4 parts, as follows:

PART I

WORKING INTEREST SEGREGATED PRODUCTION

The Working Interest share of production taken from the following described wells, insofar as such production is from the formations set forth below, is segregated from the remainder of the Unitized Substances as provided by the terms of Section 6.4 of the Unit Operating Agreement. The "associated lands" as to each well is also listed below, and the rights and obligations accruing thereto are defined in the Unit Operating Agreement, particularly in Section 6.4 (and 14.2 as to voting control).

WELL	LOCATION	FORMATION	ASSOCIATED LANDS	WORKING INTEREST OWNER
All wells	Any location approved by duly constitued authorities	All formations except the "Main Mancos"*	All lands in the Third Expansion Area which are: T-24N, R-1W Sec. 5: All Sec. 6: All Sec. 7: All Sec. 8: All T-25N, R-1W Sec. 5: All Sec. 6: All Sec. 7: All Sec. 8: All Sec. 17: All Sec. 18: All Sec. 19: All Sec. 20: All Sec. 29: All Sec. 30: All Sec. 31: All Sec. 32: All T-26N, R-1W Sec. 5: W/2 Sec. 6: All Sec. 7: All Sec. 8: W/2 Sec. 17: W/2 Sec. 18: All Sec. 19: All Sec. 20: W/2 Sec. 29: All Sec. 30: All Sec. 31: All Sec. 32: All	All Working Interest Owners - See attached list

* "Main Mancos" formation defined in Special Definitions, Page 1 of Agreement.

PART II

EXPLORATORY WELLS TO WHICH THE EXCEPTION TERMS OF SECTION 12.2 (b) APPLY

- NONE -

PART III

VOTING PERCENTAGE REQUIRED FOR INSTITUTION OF PRESSURE MAINTENANCE OF SECONDARY RECOVERY

The voting percentage required to meet the "Approval of the Parties" as described in Section 25.1 of the attached Unit Operating Agreement prior to commencing a program of pressure maintenance or secondary recovery shall be seventy-five percent (75%).

PART IV

MINIMUM SIZES OF TRACTS FOR DRILLING BLOCKS

The minimum size of a tract forming a Drilling Block for an Exploratory Well (Paragraph 1 of Part I of Exhibit 4) shall be defined by the objective formation to be drilled, as listed below. If more than one of the objective formations listed below are the objective formations, the Drilling Block shall be no smaller than that shown for the formation with the largest size listed below. If no objective formation is listed below there is no requirement for minimum size Drilling Block for a well projected to that formation.

A. Niobrara Member of the Mancos Formation: Four governmental sections, except for that part of the unit area in Township 26 North, Range 1 West outside the participating area in which the participating area is joined on the west by half sections, in which the drilling block shall comprise two sections and two half sections (i.e. E/2 of Section 5, E/2 of Section 8, all of Section 6 and all of Section 7).

COPAS — 1974

Recommended by the Council of Petroleum Accountants Societies of North America

Kraftbilt 601, BOX 800 TULSA OK 74101

EXHIBIT "2"

Attached to and made a part of that certain agreement titled Unit Operating Agreement, Canada Ojitos Unit Area, Rio Arriba County, New Mexico, dated March 1, 1981

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof: provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%)~~ twenty-six percent (26%)

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.

April 1, 1951

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 ( ) 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 $ 1,517.00

Producing Well Rate $ 273.00

Compressor Operating Rate $273.00

(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.

(6) An observation well shall be considered an active well.

(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. 4 % 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. * % of total costs in excess of $1,000,000. *To be negotiated if applicable.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT 3

ATTACHED TO AND MADE A PART OF
THAT CERTAIN AGREEMENT ENTITLED

UNIT OPERATING AGREEMENT
CANADA OJITOS UNIT AREA
RIO ARRIBA COUNTY, NEW MEXICO

DATED MARCH 1, 1981

INITIAL TEST WELL

The obligation well called for in Section 9 of the Unit Agreement shall be considered as an initial test well and shall be drilled at a location approved in conformance with the terms of the Unit Agreement and to the depth specified in said Section 9. The cost of drilling this obligation well shall be borne by the Parties.

EXHIBIT 4

TO UNIT OPERATING AGREEMENT

PART 1

DRILLING OF EXPLORATORY WELLS

1. NOTICE OF PROPOSED DRILLING. Any Party desiring the drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a proposed Drilling Block, comprising, unless established as to size under the provisions of Article 39.1 or Section 8 of this Part 1 of Exhibit 4, an area not to exceed 5,760 acres which, on the basis of available geological information will, in its judgement, be proved productive by the drilling of such well; provided, however, that minimum sizes of such Drilling Blocks may be established by the Parties by so designating (by objective formation) in Exhibit A hereto. Unit Operator and each Party within the proposed Drilling Block shall be furnished with a plat and description of the area so designated, together with written notice of the location, objective formation, maximum depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an authorized exception thereto. The proposed Drilling Block shall include no land in an established participating area for the objective formation for the well to be drilled thereon nor any land within an active, prviously designated Drilling Block for such formation.

2. EXCLUSION OF LAND FROM PROPOSED DRILLING BLOCK AND ESTABLISHMENT OF DRILLING BLOCK. Within thirty days after receipt of notice of proposal to form a Drilling Block, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein; provided, however, that the authority to reduce the size of the block granted under the Direction of the Parties is limited in that the reduced area must contain not less than 240 acres. In such event the proposed Drilling Block as reduced by the exclusion of such land shall be established as a Drilling Block. In the absence of any such Direction to reduce the size of the proposed Drilling Block, then at the expiration of said period, the proposed Drilling Block shall be established as the Drilling Block. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and if a well is commenced thereon within such period until either:

A. The completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, or

B. The filing with the Director of a proposal for the establishment or revision of a participating area if the drilling of the well results in the filing of such proposal.

3. BASIS OF PARTICIPATION. Each Party within the Drilling Block shall be entitled to participate in the Costs of the proposed well on an Acreage Basis, but shall be required to do so only if it notifies the other Parties of its willingness so to participate as hereinafter in this Article provided.

4. PRELIMINARY NOTICE TO JOIN IN DRILLING. Within ten days after the establishment of the Drilling Block each Party within such Drilling Block shall in writing advise all other Parties therein whether or not it wishes to participate in the Drilling of the proposed well. If any Party fails to give such advice within the prescribed time, it shall be deemed to have elected not to participate in Drilling such proposed well. If all Parties within the Drilling Block so advise that they wish to participate therein, the Unit Operator shall Drill the proposed well for the account of all such Parties.

5. NOTICE OF ELECTION TO DRILL. Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen days after the expiration of the ten day period last above provided in Section 4, each Party within the Drilling Block then desiring to have the proposed well Drilled, shall give to all other Parties therein 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 the well.

6. EFFECT OF ELECTION TO DRILL. If one or more, but not all of the Parties, elect to proceed with the Drilling of the well, Unit Operator shall drill the well for the account of such Party or Parties on an Acreage Basis among themselves who shall constitute the Drilling Party.

Any Party within the Drilling Block who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties within the Drilling Block at any time before operations for the Drilling of 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.

7. RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY. Whenever an Exploratory Well is drilled otherwise than for the account of all Committed Working Interests within the Drilling Block, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

8. REQUIRED DRILLING. If an Exploratory Well is Drilled as a required well in accordance with Section 10.4B, the Drilling Block for such well shall consist of all forty-acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,300 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within a participating area theretofore established for the pool or zone to which the well is to be Drilled; provided, however, if the well be one resulting from "forced-pooling" as described in Article 10.1 hereof, the Drilling Block shall be those lands under the Committed Interests which appear within the spacing unit prescribed by the subject order.

PART 2

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT OF BOTH EXPLORATORY AND DEVELOPMENT WELLS

1. COMPLETION ATTEMPT WHEN DRILLED. The attempted completion of any well when the drilling thereof reaches its projected depth, and the Deepening or Plugging Back of any well not completed as a producer at its projected depth, shall be governed by the following provisions, except that said provisions shall not apply to a particular well if every Party entitled to the notice provided for in Subdivision A hereof has consented to abandonment and plugging of such well:

A. Notice by Unit Operator. After any well has reached its projected depth and been tested, but before production pipe has been set therein, Unit Operator shall give notice thereof to each Party who participated in Drilling the well, and to each additional Party, if any, who was entitled to participate therein but elected not to do so. Each notice provided for in this section shall be given by telegraph or telephone. Also before abandoning a Development Well which has been Drilled to its projected depth but not completed as a producer, Unit Operator shall give notice thereof to each Party within the participating area involved.

B. Right to Attempt Completion, Deepen or Plug Back. Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A hereof may initiate a proposal to attempt the completion of, or to Deepen or Plug Back such well; provided that, in the absence of such initiation, any Party owning a Committed Working Interest in the tract (as identified in Exhibit B to the Unit Agreement) of land on which the well is located may initiate a proposal

ILLEGIBLE

to attempt the completion of, or to Deepen or Plug Back, such well. In order to be entitled to participate in a proposed operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling Block theretofore established for such well, or, if no Drilling Block has theretofore been established for such well, in the Drilling Block established for such Deepening or Plugging Back operation as provided in the following Paragraph C.

C. Time and Manner of Initiating Proposal. A period of twenty-four hours (exclusive of Saturdays, Sundays and holidays), from and after receipt of the notice referred to in Subdivision A of this Paragraph 1 shall be allowed within which a Party may initiate a proposal to complete, Deepen or Plug Back, and, in the case of proposal to Deepen or Plug Back a well Drilled as a Development Well, designate a Drilling Block for such proposed operation, if one has not previously been designated for such well. Any such proposal shall be initiated by giving notice thereof by telephone or telegraph to each Party entitled to participate in the proposed operation. If no such proposal is initiated within the period allowed therefor, Unit Operator shall abandon and plug said well.

D. Election. If a proposal is initiated each Party entitled to participate in any completing, Deepening or Plugging Back operations proposed in accordance with Subdivision C above shall have a period of twenty-four hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of notice of the initiation of any such operation within which (either at a meeting or by telephone) to establish a Drilling Block if the establishment of a Drilling Block is necessary for the proposed operations (Following the same procedures in establishing a Drilling Block as the procedures provided for in Part 1 of this Exhibit 4 for the establishment of a Drilling Block for an Exploratory Well) and to notify Unit Operator by telephone or telegraph whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within the time required shall be deemed to constitute an election not to participate in the proposed operation.

E. Effect of Election. The Party or Parties electing to participate in an attempt to complete, or to Deepen or Plug Back, a well as above provided, shall constitute the Drilling Party for such operation. Each Party who is entitled to make such election but fails to do so as above provided, shall be deemed to have elected not to participate in such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Drilling Party on an acreage basis among themselves, subject, however, to the provisions of Paragraph 4 of Part 2 of this Exhibit 4 dealing with Conflicts, and Paragraph 5 of Part 2 of this Exhibit 4 dealing with Deepening or Plugging Back to Participating Area.

F. Stand-By Rig Time. Stand-by time paid for the rig on a well until expiration of the period of forty-eight hours allowed for the initiation of and election to participate in an attempt to complete, or to Deepen or Plug Back, such well, shall be charged and borne as part of the Costs incurred in Drilling the well. Thereafter such stand-by time shall be charged to and borne by the Party or Parties who elect to participate in the attempt to complete, or to Deepen or Plug Back, the well, whether or not such Party or Parties shall proceed with such operation. However, if the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging the well shall be charged and borne as part of the Costs incurred in Drilling the well.

2. ABANDONMENT OF PRODUCING WELLS. A well completed as a producer of Unitized Substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of Paragraph 3 hereof concerning Deepening, or Plugging Back or Abandonment of Producing Wells. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such a well shall not be abandoned for production from the pool or zone in which it is completed except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such a well receives the Approval of the Parties who own the well, but is not consented to by all such Parties, Unit Operator shall give written notice thereof to each Party then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called the 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 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 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, but only with respect to the pool or zone in which it is then completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one non-abandoning Party, the interest so relinquished shall be owned by the non-abandoning Parties, each in the proportion that its interest in the well bears to the combined interest therein of all non-abandoning Parties immediately prior to such relinquishment.

C. 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 Production therefrom and shall bear all Costs, Lease Burdens and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating 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.

D. Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six months after relinquishment by the abandoning Parties of their interests 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 Subdivision B of this section. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen days after receipt of the notice given by Unit Operator pursuant to Paragraph 3 hereof.

3. DEEPENING OR PLUGGING BACK ABANDONED PRODUCING WELLS. Before abandoning for plugging any well completed as a producer of Unitized Substances, Unit Operator shall, (A) if the well is within a Participating Area, give written notice thereof to the Party or Parties owning Committed Working Interests in the tract of land on which the well is located, or (B) if the well is not within a Participating Area, give written notice thereof to each Party then owning an interest in the well and to each additional Party, if any, owning Committed Working Interests in the tract of land upon which the well is located. If no Drilling Block has previously been established for such well and a Party receiving such notice desires the Deepening or Plugging Back thereof, it shall, within fifteen days after receipt of such notice, proceed with the establishment of a Drilling Block for such well as provided in Paragraphs 1 and 3 of Part 1 of this Exhibit 4. Within ten days after receipt of such notice, if a Drilling Block has previously been established for such well, or, if not previously established, within ten days after a Drilling Block is established for such well, the Party desiring the Deepening or Plugging Back of such well shall give notice thereof in accordance with Paragraph 4 of Part 1 of this Exhibit 4 and all of the provisions of Paragraphs 4, 5 and 6 of Part 1 of this Exhibit 4 shall apply in the same manner as if the proposed Deepening or Plugging Back were the Drilling of an Exploratory Well, subject, however, to the provisions of Paragraph 4 of Part 2 of this Exhibit 4, dealing with Conflicts, and Paragraph 5 of Part 2 of this Exhibit 4, dealing with Deepening or Plugging Back to a Participating Area. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten days, or if such notice is given but no Party elects to proceed with the Deepening or Plugging Back of the well within the time limit therefor, Unit Operator shall abandon and plug the well for the account of the Party or Parties owning the well.

4. CONFLICTS. If conflicting elections to attempt completion, Deepen, or Plug Back are made in accordance with the preceding provisions of Part 2 of this Exhibit 4, preference shall be given first to a completion attempt and then to Deepening. However, if a completion attempt, a Deepening or Plugging Back does not result in completion of the well as a producer, Unit Operator shall again give notice in accordance with Subdivision A of Paragraph 1 of Part 2 of this Exhibit 4 before abandoning the well for plugging.

5. DEEPENING OR PLUGGING BACK TO PARTICIPATING AREA. If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to a pool or zone for which such participating area has been established, such operation may be conducted only if it receives the Approval of the Parties within such participating area, and upon such terms and conditions as may be specified in such Approval.

6. RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTIES. Whenever an attempt to complete a well is made, or a well is Deepened or Plugged Back, otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply.

EXHIBIT 5

ATTACHED TO AND MADE A PART OF
THAT CERTAIN AGREEMENT ENTITLED

UNIT OPERATING AGREEMENT
CANADA OJITOS UNIT AREA
RIO ARRIBA COUNTY, NEW MEXICO

DATED MARCH 1, 1981

INSURANCE

In addition to the insurance coverage set out in Article 16.2 hereof, Unit Operator shall carry the following insurance for the benefit and protection of the joint account:

1. Primary Comprehensive General Public Liability Insurance with limits, (a) as to Bodily Injury of not less than One Hundred Thousand Dollars ($100,000.00) for each person and not less than Three Hundred Thousand Dollars ($300,000.00) for each occurrence, and (b) as to Property Damage of not less than One Hundred Thousand Dollars ($100,000.00) for each claim arising out of one occurrence and One Hundred Thousand Dollars ($100,000.00) for any number of claims arising out of one occurrence.

2. Primary Comprehensive Automobile Public Liability Insurance with limits, (a) as to Bodily Injury of not less than One Hundred Thousand Dollars ($100,000.00) for each person and not less than Three Hundred Thousand Dollars ($300,000.00) for each occurrence, and (b) as to Property Damage of not less than One Hundred Thousand Dollars ($100,000.00) for each occurrence.

3. A Five Million Dollars ($5,000,000.00) single limit Umbrella Liability Policy which shall follow the primary coverages set out in Article 16.2 and Paragraphs 1 and 2 above, and constitute excess protection as to primary limits per occurrence, but also shall extend to cover certain hazards not covered by the primary, subject to a returned deductible of Twenty-Five Thousand Dollars ($25,000.00), notably Underground Property Damage, Damage to Property of others in care, custody and control of the operator.

The premiums for all such insurance shall be charged to the joint account. It is understood and agreed that Unit Operator shall not carry insurance covering loss by fire, windstorm, explosion or tornado to lease equipment or lease products, or any other insurance for the joint account except by mutual agreement of the parties hereto.

EXHIBIT 6

ATTACHED TO AND MADE A PART OF
THAT CERTAIN AGREEMENT ENTITLED

UNIT OPERATING AGREEMENT
CANADA OJITOS UNIT AREA
RIO ARRIBA COUNTY, NEW MEXICO

DATED MARCH 1, 1981

EQUAL OPPORTUNITY CLAUSE

A. During the performance of this contract, the CONTRACTOR agrees as follows:

(1) The CONTRACTOR will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The CONTRACTOR will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The CONTRACTOR agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The CONTRACTOR will, in all solicitations or advertisements for employees placed by or on behalf of the CONTRACTOR, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The CONTRACTOR will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the CONTRACTOR'S commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The CONTRACTOR will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The CONTRACTOR will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the CONTRACTOR'S noncompliance with the nondiscrimination clauses of this Agreement or with any of such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and the CONTRACTOR may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The CONTRACTOR will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The CONTRACTOR will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the CONTRACTOR becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the CONTRACTOR may request the United States to enter into such litigation to protect the interests of the United States.

B. If required to do so by Federal law, regulation, or order, CONTRACTOR agrees that he shall:

(1) File with the Office of Federal Contract Compliance or agency designated by it, a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this Agreement (unless such a report has been filed in the last 12 months), and continue to file such reports annually, on or before March 31st;

(2) Develop and maintain a written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended.

(OTHER PROVISIONS)

ARTICLE 41

41.1 Unpaid Unit "Costs". If any Working Interest Owner fails to pay its share of Unit Costs within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Costs of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Costs of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Cost shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

41.2 Restoration In Event of Overpayment for Production Not Taken In Kind. Section 6.5 provides for the taking in kind of Production; and in event of failure to take in kind, Section 6.6 provides that Unit Operator may market the Production and account to the Owners therefor. Further with regard to Section 6.6, Unit Operator agrees to advise the Working Interest Owners of prices being received for Production and when significant changes in prices occur, and although any Working Interest Owner may at any time revoke the authority granted Unit Operator to market his share of Production, take in kind, and in accordance with Section 6.5 market it: unless and until such action is taken Unit Operator may market the Production; and in consideration of Unit Operator's marketing the Production and making distribution of the proceeds to the Working Interest Owners, each of the Working Interest Owners agrees to indemnify and hold Unit Operator harmless from any and all claims, demands or cause of action arising by virtue of its marketing Production and making such payments.

It is recognized that the price for which Production is permitted to be sold may be subject to regulation by governmental authority. In the event such regulation does not permit retention of all of the price for which Production was sold, the Working Interest Owners severally agree to refund amounts in excess of permitted levels, together with any applicable interest and penalties, promptly when required by Unit Operator; such refunds being treated as Costs under the meaning of Articles 1.4 and 41.1 hereof.

Should such refunds be required that are attributable to royalty interests, overriding royalty interests, production payments and other similar interests (hereinafter called "lease burdens") and Unit Operator is unable to recover such refunds from the owners thereof; then any unrecovered refund accruing to a lease burden shall be treated as a Cost under the meaning of Articles 1.4 and 41.1 hereof chargeable to the affected Working Interest Owners in proportion to their Working Interests. Unit Operator shall continue to use such reasonable measures as deemed practical - including withholding of proceeds of sale of Production attributable to the lease burden interest - to attempt to recover and credit to the accounts of the Working Interest Owners such outstanding refunds.

In event litigation is considered to protect the rights of the Working Interest Owners as to matters covered by this Article 41.2, Unit Operator may be authorized through the voting procedure of Article 14 hereof, but not otherwise, to incur legal costs to protect the rights of the Working Interest Owners.

41.3 Other Provisions regarding WISP.

A. Costs (reference Article 6.4). Anything in this agreement to the contrary notwithstanding, all costs incurred in drilling, completion, plugging and other operations related to WISP production shall be paid by the parties entitled to such segregated production as herein provided; and in this regard the provisions of Exhibit 4, hereto, particularly paragraph 3 of Part I therein is made subject to the terms of Articles 6.4 and 41.3.

B. Correlative Rights (reference Article 6.4). As between the parties to this agreement, nothing herein shall require the drilling of any wells across a boundary between WISP lands and other unitized lands. Segregation of such production by the terms of Article 6.4 is deemed to in no way adversely affect the correlative rights of any party hereto, nor to entitle any party to protection from drainage.

C. Extinguishment of WISP Production Provisions in event of Secondary Recovery or Pressure Maintenance (refers to Article 6.4 and Article 25). In the event secondary recovery or pressure maintenance should be undertaken by the parties as provided in Article 25, the provisions of Article 6.4 pertaining to working interest segregated production, as well as any other provision in this agreement concerning WISP, shall be of no further force and effect, it being the intent of the parties that such segregated production provisions have no application to secondary recovery or pressure maintenance operations.

41.4 No casing point election for Mancos wells (reference Article 4). Anything in this agreement to the contrary nonwithstanding, unless through prior approval of the Parties, there shall be no "casing point election" accorded any party for wells projected to the Main Mancos formation; rather the Authority for Expenditure or Cost Estimate submitted for approval shall include costs of completion and equipping for production. "Non-Consent" privileges and penalty allowances shall be on a total well cost basis.

41.5 Recognition of inflation in investment adjustment (reference Article 13). Any costs for materials, supplies or services used in an investment adjustment shall be that cost determined from current (as of the date of adjustment) costs, regardless of the date the cost was incurred or paid.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

UNIT OPERATOR AND WORKING INTEREST OWNER:

BENSON-MONTIN-GREER DRILLING CORP.

ATTEST:

BY: _____

_____
Secretary

_____
Albert R. Greer, President

STATE OF NEW MEXICO)
) SS
COUNTY OF SAN JUAN)

The foregoing instrument was acknowledged before me this ___ day of _____, 19 _____, by ALBERT R. GREER, President of BENSON-MONTIN-GREER DRILLING CORP., a corporation, on behalf of said corporation.

UNIT OPERATING AGREEMENT

CANADA OJITOS UNIT AREA

RIO ARRIBA COUNTY, NEW MEXICO

THIS AGREEMENT, made as of the first day of March, 1981, by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have committed their interests into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE CANADA OJITOS UNIT AREA, County of Rio Arriba, State of New Mexico, dated as of the 19th day of June, 1963, 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" and which Unit Area may, by the terms of the Unit Agreement, be expanded or contracted, and lands in the Unit Area shall be the lands covered by this agreement, insofar as the oil and gas leases thereunder are committed to the Unit Agreement by the Parties hereto; and

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

WHEREAS, the Parties currently are considering expanding the Unit Area, but whether or not it is expanded, the Parties nevertheless enter into this Agreement;

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

Construction of Regulatory Autnorities and Names.

The authority of the Federal Power Commission, as identified herein, has been superseded by that of the Federal Energy Regulatory Commission, and wherever in the following articles (particularly article 37) the words "Federal Power Commission" appear they shall be construed to mean "Federal Energy Regulatory Commission", or such other appropriate succeeding governmental authority; as is proper;

Special Definitions:

Main Mancos formation: as used herein means those members of the Mancos formation from its top to the base of the Greenhorn member; and is equivalent to that stratigraphic interval shown on the Schlumberger electric log of the Canada Ojitos Unit No. O-9 well, located in the southeast quarter of Section 9, Township 26 North, Range 1 West, between the depths of 6155' and 8137'; such reference electric log being the Schlumberger Induction Electric log run June 18, 1963 with well identification of "Bolack-Greer No. 1 Bolack";

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UNIT OPERATING AGREEMENT

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ARTICLE 1

DEFINITIONS

1.1(a) 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.

1.1(b) "Director" means the Director of the United States Geological Survey. In the instance of approval required by USGS, "Director" also means "Supervisor" if the Supervisor has the authority to so act.

1.1(c) "Supervisor" means the Supervisor of that division of the United States Geological Survey which has jurisdiction over the Federal lands subject to this agreement.

1.2 "Unit Operator" means BENSON-MONTIN-GREER DRILLING CORP. 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. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 "Acreage Basis" when used to describe the basis of participation by the Parties within the Unit Area, a Participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, means participation by each such party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. 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 there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7(a) "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.

1.7(b) "Working Interest Segregated Production" ("WISP") means that production belonging to the working interest from wells, formation and lands as more particularly described in Article 6.4 and Exhibit A which is segregated from unit "Production".

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 "Drilling Party" means the Party or Parties obligated to bear the costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 "Non-Drilling Party" means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

1.11 "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, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.12 "Deepen or Plug Back" means to perform all operations reasonable necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

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

1.14 "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.

1.15 "Development Well" means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 "Exploratory Well" means a well other than a Development Well Drilled after discovery of Unitized Substances in paying quantities in the Unit Area.

1.17 "Approval Of The Parties" or "Direction Of The Parties" means an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 "Salvage Value" of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonable estimated Costs of salvaging the same and plugging the well.

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

ARTICLE 2

NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 NO LIABILITY WITHOUT CONSENT. No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3

INITIAL TEST WELL

3.1 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.

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3.2 COSTS OF DRILLING. Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3: Provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells (and, if applicable, by the terms of Part 1 of Exhibit 4, Articles 12 and 13).

ARTICLE 4

SUBSEQUENT TEST WELLS

4.1 RIGHT TO DRILL. Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling any subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells (and, if applicable, by the therms of Part 1 of Exhibit 4, Articles 12 and 13).

ARTICLE 5

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 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 days before filing the same with the Director. The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the Proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 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 Director.

5.3 REVISED PROPOSAL. If the proposal does not receive the Approval of the Parties within the proposed Participating Area then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within thirty days from the submission of the first proposal, then Unit Operator shall file with the Director a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 REJECTION BY DIRECTOR. If a proposal filed by Unit Operator, as above provided, is rejected by the Director, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 CONSOLIDATION. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6

APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 APPORTIONMENT AND OWNERSHIP WITHIN PARTICIPATING AREA. Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back, and except as to any initial test well or exploratory well in the participating area which has an "Effective Date" as defined in Section 13.1 hereof different from the "Effective Date" of the resulting participating area, and except for wells described in Section 6.4 from which WISP may be taken and except for Section 12.2(b):

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of Unitized Substances from any pool or zone for which such participating area is established shall be borne by the Parites within such participating area on an Acreage Basis determined as of the time such Costs are incurred.

B. Production. All Production from a participating area shall be allocated in accordance with the Unit Agreement to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 SPECIAL PROVISIONS FOR AN INITIAL TEST WELL, SUBSEQUENT TEST WELL OR EXPLORATORY WELL RESULTING IN INCLUSION IN A PARTICIPATING AREA BUT HAVING A DIFFERENT "EFFECTIVE DATE" FROM THAT OF THE RESULTING PARTICIPATING AREA. If, as defined in Section 13.1 hereof, any initial test well, subsequent test well or any exploratory well resulting in inclusion in a participating area shall have an "Effective Date" different from that of the participating area (as determined by the provisions of the Unit Agreement) in which it is located, then the provisions of Section 6.1, A, B and C shall not apply to Committed Working Interests of each such initial test well, subsequent test well or exploratory well, until the date (defined in Section 13.1 hereof) the investment adjustment is made as to any such well. Until the investment adjustment is made as to a participating area as a result of completion of any such well, the well, equipment, working interest production therefrom and the drilling block on which it is located shall be in effect excluded from the participating area. However, allocation of royalty on production and payment of proceeds accruing to royalty interests in production shall be in accord with the provisions of the Unit Agreement and Section 6.1B herein.

6.3 OWNERSHIP AND COSTS OUTSIDE PARTICIPATING AREA. If a well other than one described in section 6.4 herein from which WISP is taken, is completed as a producer but does not qualify for inclusion within a participating area: Such well, the Production therefrom, and the materials and equipment therein or appurtenant there to shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burden shall be in the same proportions that they bore the Costs incurred in Drilling the Well. If the Drilling of such well has been by less than all parties in the subject Drilling Block, then the rights and obligations of Drilling Party and Non-Drilling Party shall be governed by the applicable terms of Part 1 of Exhibit 4, and Article 12. The percentages of ownership which may initially have been determined by the ownership of acreage within the Drilling Block shall remain fixed (subject to rights of reversion described above) for the life of the well, regardless of whether other leases within the initial Drilling Block expire by their own terms, or are released.

6.4 WORKING INTEREST SEGREGATED PRODUCTION ("WISP"). The Working Interest portion of Unitized Substances produced from certain wells drilled, drilling at the time of unitization, or for which drilling has been contracted at the time of unitization (as well as certain formations therein penetrated and the lands associated therewith) may be segregated from the remainder of the Unitized Substances. Such segregation results not by categorical classification; but through declaration of the Parties by identifying in Exhibit A hereto the subject wells, formations and lands (such identification, if applicable, appears in Part 1 of Exhibit A).

As to any such well from which WISP is taken, and as between working interest owners, the said well, the equipment therein or used in connection therewith, and the production therefrom shall continue to be owned by the stated (in Exhibit A) working interest owners of such well in their respective percentages, and there shall never by any adjustment or readjustment of costs or ownership of said well by virtue of or by reason of the establishment, revision, enlargement or consolidation of a participating area under this Unit Operating Agreement in relation to said well.

If all or any portion of the subject well's "associated lands" (described in Exhibit A) is included in a parti-

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cipating area for the same formation, or formations, from which WISP is taken from the subject well, the working interest owners in said "associated lands" shall not receive any portion of the production allocated to said lands from other wells within the participating area or be entitled to participate in the costs and expenses of the parties in the participating area insofar as the subject well's "associated lands" are concerned.

Any formations under the "associated lands" other than those identified as ones from which WISP may be taken shall be treated the same as other formations under other lands committed to the Unit Agreement and Unit Operating Agreement.

6.5 TAKING IN KIND. Each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5 dealing with Liens, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales each Party shall execute any division order or contract of sale pertaining to its interest. Each Party taking in kind or separately disposing of its share of production shall pay or arrange for the payment of, all taxes measured on production, including severance, sales, gathering or similar taxes.

6.6 FAILURE TO TAKE IN KIND. If any Party fails to take or dispose of its share of Production, Unit Operator shall have the right for such reasonable periods of time that are consistent with the minimum needs of the industry under the circumstances, but in no event to exceed one year, and subject to revocation at will by the Party owning same, to purchase for Unit Operator's 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 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 Production not previously taken by Unit Operator or delivered to others pursuant to this Article. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other Party's share of gas production without written consent from such party.

6.7 SURPLUS MATERIALS AND EQUIPMENT. Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein 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, by written notice given to Unit Operator within thirty days after classification thereof as surplus, except that such right shall not apply to junk or to any item having a replacement cost less than one thousand dollars ($1,000.00).

B. Surplus materials and equipment not divided in kind (other than junk and any item having a replacement cost of less than one thousand dollars (1,000.00)) shall be sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7

PLANS OF DEVELOPMENT

7.1 WELLS AND PROJECTS INCLUDED. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 NOTICE OF PROPOSED PLAN. At least ten days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 NOTICE OF APPROVAL OR DISAPPROVAL. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 AMENDMENTS. If any Party or Parties shall have elected to proceed with Drilling, 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 as approved by the Supervisor. Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 CESSATION OF OPERATIONS UNDER PLAN. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with this agreement by the Parties chargeable with such Costs.

ARTICLE 8

DRILLING OF DEVELOPMENT WELLS

8.1 PURPOSE AND PROCEDURE. It is the purpose of this Article to set forth the procedure for Drilling a Development well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistant with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 NOTICE OF PROPOSED DRILLING. Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the Participating area 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, or an authorized exception thereto.

8.3 RESPONSE TO NOTICE. Within thirty days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the Participating area. If any Party fails to respond to such notice within said thirty day period, it shall be deemed to have elected not to participate in Drilling the Proposed well.

8.4 NOTICE OF ELECTION TO DRILL. Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen days after expiration of said period of thirty days, each Party within the participating area who then desires to participate in the Drilling of the proposed well shall give to all other Parties within the participating area written notice of 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.

8.5 EFFECT OF ELECTION TO DRILL. If one or more, but not all of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 SUBSEQUENT ELECTION. If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties

within the participating area 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.

8.7 RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTIES. Whenever a Development Well is drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9

EXPLORATORY WELLS

9.1 PROCEDURE FOR DRILLING. The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10

REQUIRED WELLS

10.1 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 an authorized representative of the Director of the Department of the Interior, or by an agency of the government of the state in which the subject lands are located which has juristiction and authority to order under a "forced - pooling" regulation the pooling of lands committed to this Unit Operating Agreement with other lands not so committed. 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.

10.2 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 days after the order requiring such well becomes final or within such lesser time as may be required by 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, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the 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 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 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 receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

C. Termination. If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 REQUIRED DRILLING. If none of the foregoing alternatives is available, Unit Operator shall drill the required well under whichever of the following provisions is applicable:

A. Development Well. If the required well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the Participating area in which the well is Drilled; or

B. Exploratory Well. If the required well is an Exploratory Well, it shall be Drilled by Unit Operator for the account of Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 PROCEDURE. The attempted completion, Deepening or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12

RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 SCOPE OF ARTICLE. Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2(a) RELINQUISHMENT OF INTEREST BY NON-DRILLING PARTY. When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished, effective the first of the month in which the subject well is completed, to the Drilling Party all of its operating rights and working interest in and to such well and in and to the Committed Working Interest in the "subject acreage". The "subject acreage" to which rights are relinquished as provided in this Article 12 and which will, in the event of inclusion in a participating area, govern the amount of production so relinquished is defined as follows:

A. If the subject well be a Development Well inside an established participating area, all acreage of each Non-Drilling Party in the resulting participating area.

B. If the subject well be a Subsequent Test Well or an Exploratory Well which results in establishment of a participating area, all acreage of each Non-Drilling Party in the resulting participating area.

C. If the subject well be a Subsequent Test Well or an Exploratory Well which results in addition of acreage to an established participating area, all acreage of each Non-Drilling Party in the acreage which qualifies for addition to the participating area as a result of the Drilling of the subject well; but does not include any acreage of the Non-Drilling Party which, prior to the Drilling of the subject well, existed, or qualified for inclusion, in the participating area.

D. If the Subject well be a Subsequent Test Well or an Exploratory Well which results in a producer not capable of producing in paying quantities, all acreage of each Non-Drilling Party in the Drilling Block as defined in Part 1 of Exhibit 4 hereto. In this

instance it is recognized that by terms of the Unit Agreement the subject well will be operated on a lease basis and if part of the acreage in the Drilling Block is under other lease(s), such other lease(s) may expire by their own terms. There is no obligation on the Drilling Party to maintain such expiring lease(s) or to reassign the interests relinquished under them prior to the date of reversion as defined in Article 12.3 following.

In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.2(b) EXCEPTION: Except as to required wells, the provisions of Paragraph 12.2(a) above, 12.3, 12.4 and 12.5 below, do not apply to any Exploratory Well described in Part 2 of Exhibit A. (If the provisions of this subsection are not applicable, there will be no listing under Part 2 of Exhibit A and the terms of this subsection are null and void).

In the event any such additional Exploratory Well is hereafter Drilled by less than all the Parties hereto, then the Drilling Party shall drill, complete, equip and operate such well or wells at its own risk and cost, and the Non-Drilling Party shall reimburse the Drilling Party for its share of such costs at a rate equivalent to the rate at which such Non-Drilling Party collects and receives its respective share of the proceeds (after deducting Lease Burdens and taxes) from sale of production from such well, and not otherwise. In no event shall there be any change in the ownership of the operating rights, or relinquishment of interest as provided in 12.2(a) above, to any such additional well by reason of the election of any Party hereto not to participate in the cost of Drilling thereof, and each such Non-Drilling Party shall retain his right to exercise the privileges of a working interest owner in such well at all times.

12.2(c) INFORMATION PROVIDED RELINQUISHING PARTY. In the event a relinquishment of interest by a Non-Drilling Party occurs according to the provisions of this agreement as to any well and Production is had from such well, the Unit Operator, or other Party conducting the operation which resulted in the relinquishment, shall furnish each Non-Drilling Party upon its request all the information referred to in Section 16.1G and in addition shall include the following:

A. An itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

B. Until reversion occurs, a monthly itemized statement of the costs incurred in the operation of the said well, the quantity of Production therefrom, the amount of proceeds received from the sale of the same and the Lease Burdens paid with respect to Production.

12.3 REVERSION OF RELINQUISHED INTEREST. If the well is completed as a producer of Unitized Substances, then the operating rights and working interest in the well and subject acreage relinquished as provided in Article 12.2 above by a Non-Drilling Party shall revert to it at such time as the Drilling Party realizes from the proceeds after relinquishment of that portion of Production from the well (or from the proceeds after relinquishment of that portion of Production allocated to the subject acreage, in event it is included in a participating area and timely working interest participation results by operation of the provisions of Article 6.2 and 13.1 herein) and after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of Production from such well, the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. 300% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the Account of all Parties entitled to participate therein.

C. 300% of that portion of the Costs incurred in equipping the well for production (including, but not limited to, costs of casing, tubing, stock tanks, separators, treaters, pumping equipment and piping) that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to a deemed part of the Costs incurred in operating the well, for the purpose of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 EFFECT OF REVERSION. From and after reversion to a Non-Drilling Party of its relinquished interest in acreage, such Non-Drilling Party shall share, on an Acreage Basis, in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the costs of operating the well, all in accord with the terms of this Unit Operating Agreement.

12.5 RIGHTS AND OBLIGATIONS OF DRILLING PARTY. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom (or allocated to the acreage thereto as defined above) subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

ARTICLE 13

ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 WHEN ADJUSTMENT MADE.

A. As to establishment of a new participating area or enlargement of an existing participating area occasioned by the Drilling of an initial test well or the Drilling of an exploratory well, the adjustment in accordance with the provisions of the succeeding sections of this Article 13 shall be made as of the date the resulting area becomes effective in accordance with the terms of the Unit Agreement, providing this effective date meets the Approval of the Parties of the resulting participating area. If this effective date does not receive the Approval of the Parties, then as to the working interests, the effective date as to establishment or revision of a participating area resulting from inclusion of any particular Initial Test Well or any particular Exploratory Well within the resulting participating area shall be the first day of the month following the date at which the Drilling Party has recovered from the proceeds or market value of production from the subject Initial Test Well or Exploratory Well after deducting from such proceeds all Lease Burdens, oil hauling or marketing costs, and payable up to such time on the production from such well: the total of the following:

1. 100% of the operating Costs of the well from inception

until the adjustment is made.

2. 300% of the Costs of Drilling, Testing, Completing, Deepening, Re-Working and Plugging Back.

3. 300% of Costs of equipping for production, including but not limited to cost of casing, tubing, stock tanks, separators, treaters, pumping equipment and piping.

B. As to revision of a participating area by enlargement or contraction or whenever two or more participating areas are combined, all in accord with the Unit Agreement (the participating area resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13. as of the date (if not determined by operation of Section 13.1A above) on which the establishment, revision or combination that creates such Resulting Area becomes effective, such date being hereinafter referred to as the "Effective Date" of such Resulting Area.

13.2 DEFINITIONS. As used in this Article 13:

A. "Useable Well" within a Resulting Area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. "Intangible Value" of a useable well within a Resulting Area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which Resulting Area is created, and which contribute to the Production of Unitization Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates (subject to change upon Approval of the Parties of the Resulting Area) for each month during any part of which such well has been operated prior to the effective date of such Resulting Area:

(1) One-half percent (½%) per month for a cumulative total of 100 months, and

(2) Zero percent (0%) per month for each month in excess of said cumulative total.

C."Tangible Property" serving a Resulting Area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such Resulting Area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. "Value" of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well), reduced, in the case of tangible property which is generally regarded as depreciable, by the following rates (subject to change upon Approval of the Parties of the Resulting Area):

(1) One-half percent (½%) per month for a cumulative total of 100 months, and

(2) Zero percent (0%) per month for each month in excess of said cumulative total.

13.3 METHOD OF ADJUSTMENT ON ESTABLISHMENT OR ENLARGEMENT. As promptly as reasonably possible after the effective date of a Resulting Area created by establishment or enlargement of a participating area, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.1, 13.6 and 13.7.

A. The intangible value of each useable well within such Resulting Area on the Effective Date thereof shall be credited to the Party or Parties who own such well immediately prior to such Effective Date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all Parties within the Resulting Area on an Acreage Basis.

B. The value of each item of tangible property serving the Resulting Area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the Resulting Area on an Acreage Basis.

C. If a Resulting Area, on the Effective Date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating area, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value may be fairly apportioned between such Resulting Area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the Resulting Area shall be included in the adjustment made as of the effective date of such Resulting Area in the same manner as the value of tangible property serving only the Resulting Area.

D. The credits and charges above provided for shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it, shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this agreement, and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 METHOD OF ADJUSTMENT ON CONTRACTION. As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for in said Subdivision B, over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of

such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 OWNERSHIP OF WELLS AND TANGIBLE PROPERTY. From and after the effective date of a Resulting Area, all useable wells within such Resulting Area and all tangible property serving such Resulting Area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the Resulting Area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment above provided for shall be owned by the Parties within the Resulting Area on an Acreage Basis, and (b) if a Party within the Resulting Area was a Non-Drilling Party for a well which is a useable well within such Resulting Area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well; all, however, subject to Section 13.1

13.6 RELINQUISHED INTERESTS OF NON-DRILLING PARTIES. If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a Resulting Area on the effective date thereof has not reverted to it prior to such effective date then insofar and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B of Section 13.3 in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

13.7 NO LIABILITY FOR INVESTMENT ADJUSTMENT. Notwithstanding any provision in this agreement to the contrary, no Party shall be liable, without its consent, for any investment adjustment charge under the provisions of Section 13.3D or 13.4D, which charge is in excess of the Party's credits under Article 13. In the event of establishment, enlargement or contraction of a Participating Area, the provisions of Article 12 and other provisions related thereto shall be applicable to any investment adjustment to the same extent (except for the percentage of costs recovered before reversion) that these provisions are applicable to a well drilled otherwise than for the account of all parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If within 30 days after proposal for establishment, enlargement or contraction of Participating Area has been submitted by Unit Operator in writing to the Working Interest Owners involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement or contraction that Party shall be deemed a Non-Drilling Party, and shall be deemed as of the effective date of the resulting area in connection with which such charge is made to have relinquished the interest for which such charge is made to the Party or Parties who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which latter Party or Parties shall be deemed the Drilling Party with respect to this relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12, except that it is specifically understood that the Article 12.3B percentage for exercise of the Non-Drilling Option applicable to establishment, enlargement or contraction of the Participating Area be 150%.

ARTICLE 14

SUPERVISION OF OPERATIONS BY PARTIES

ILLEGIBLE

14.1 RIGHT OF SUPERVISION. Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 VOTING CONTROL. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis after first excluding acreage from which WISP (reference: Article 6.4 herein) is taken. Except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 25.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.1, Surrender or Release within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area), 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; and provided, however, that if one Party voting in the affirmative has seventy-five percent (75%) or more of the voting power, such Party's vote shall prevail; 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 forty-five percent (45%) of the voting power, the affirmative vote of the Parties or a single Party (without support of another Party) having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least one additional Party; and provided further that if one Party voting in the negative has more than forty-five percent (45%) of the voting power, his negative vote shall prevail. 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 negative. An Approval 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.

14.3 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 or Parties having ten percent (10%) or more of the voting power on each matter to be considered at the meeting. At least ten 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 meetings.

14.4 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 or 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 or telegraph (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten days nor

more than thirty days), provided, however, that if within ten days after submission of such matter, request is made for a meeting in accordance with Section 14.3, 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.

14.5 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.

14.6 AUDITS. An audit shall be made of Unit Operator's records and books of account pertaining to operations hereunder whenever the making of such audit receives the Approval of the Parties (other than the Party acting as Unit Operator) chargeable with the Costs incurred during the period covered by the audit, except that such audit shall not be made more often than once each six months. Such audit shall be made by auditors in the employ of said Parties, and the allowance to be made to each Party furnishing an auditor shall be determined by the Approval of said Parties; such allowances shall be paid by said Parties in proportion to their respective participations among themselves in Costs incurred during the period covered by the audit. Audits other than those receiving the Approval of the Parties as provided above may be made in accordance with the provisions set forth in Exhibit 2 hereof.

14.7 EXTRANEOUS PROJECT. Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 15

UNIT OPERATOR'S POWERS AND RIGHTS

15.1 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 any other property used in connection with any operation on the Unit Area.

15.2 EMPLOYEES. All individuals employed by Unit Operator in 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.

15.3 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.

15.4 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, 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 reasonable possible.

15.5 LIEN. Each of the other 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 there. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Production, up to the amount owning by such Party plus interest at the rate of ten percent (10%) per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

15.6 ADVANCES. Unit Operator, at its election shall have the right from time to time to demand and receive from the other Parties chargeable therewith payment in advance of their respective shares of the estimated amount of Costs to be incurred 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 fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of ten percent (10%) 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 not more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back 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.

15.7 USE OF UNIT OPERATOR'S DRILLING EQUIPMENT. Any Drilling, 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 which receives the Approval of the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where the Unit Operator alone constitutes the Drilling Party, such form shall receive the approval of the Parties within the Participating area, or other designated area for such well, prior to the commencement of such operation.

15.8 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 give or receive such notice, consent or approval.

ARTICLE 16

UNIT OPERATOR'S DUTIES

16.1 SPECIFIC DUTIES. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling Wells. Drill, 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 or 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 Parties within the area affected by any operation 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 Costs. Pay all Costs incurred in operations hereunder 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 written notice thereof to the Parties affected thereby.

E. Records. Keep full and accurate records of all Costs incurred, 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. Access To Unit Area. Permit each of the other Parties, through its duly authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times to inspect or to observe, and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to "non-privileged" information and data in the possession of Unit Operator concerning the Unit Area.

G. Non-Privileged Information. Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditure or itemizations of estimated expenditures in excess of ten thousand dollars ($10,000.00), (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) reports to governmental agencies, (5) monthly reports showing disposition in detail of the volumes of oil, condensate, water, associated gas, non-associated gas, other substances if pertinent, as well as volumes of all substances injected into Unitized formations, (6) true and legible copies of all electrical logs, gamma ray logs, mud logs and other non-privileged well surveys, (7) samples of cores or cuttings taken from wells drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, (8) copies of all production tests, bottom hole pressure and temperature surveys, reservoir fluid analysis, core analyses and any other "non-privileged" surveys or measurements conducted on said wells, and (9) such other and additional information or reports as may be required by Direction of the Parties within the area affected.

Operator shall furnish to any Party additional information pertaining to operations on the subject lands when a special request therefor is made, however, the cost of gathering and furnishing any additional information not ordinarily furnished by Operator to all Parties shall be charged to the Party who requests the information.

H. Privileged Information. The Parties hereto, or any one or more of them or any association of which one or more of the Parties is a member, may upon reasonable request therefor and at its or their sole cost, risk and expense, including stand-by rig time, be granted the right to obtain information in addition to that prescribed at the direction of the Parties; such information to include, but not be restricted to, coring of certain formations, running of additional well logs, taking of bottom hole pressures and samples, conducting velocity surveys whether convential or continuous, in any suitable well drilled hereunder and be entitled exclusively to the information thereby obtained. Neither the other provisions of this Article 16.1G and 16.1H nor any other provisions of this Unit Operating Agreement shall entitle any non-participating Party to share in the distribution of such privileged logs and survey information.

16.2 INSURANCE.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the state in which the unit lands are 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 receives the Approval of the Parties from time to time. 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 lands are located and to maintain such insurance as is required by Direction of the Parties.

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

16.3 NON-DISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the non-discrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

Further with regard to non-discrimination, and in connection with the performance of work under this agreement, the Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), copy of which is enclosed herein (Exhibit 6) and made a part hereof.

16.4 DRILLING CONTRACTS. Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 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 receiving the Approval of the Parties.

16.5 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 to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17

LIMITATIONS ON UNIT OPERATOR

17.1 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 an emergency.

B. Limit On Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of ten thousand dollars ($10,000.00); 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, 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 sub-operator.

D. Settlement of Claims. Pay in excess of twenty five hundred dollars ($2500.00) 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 in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18

TITLES

18.1 REPPESENTATIONS OF OWNERSHIP. Each Party represents to all other Parties that to the best of its knowledge and belief 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 ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cause for cancelling or terminating this agreement.

18.2 TITLE PAPERS TO BE FURNISHED.

A. Lease Papers. Each Party, after executing this agreement, shall upon request promptly furnish Unit Operator with photostatic 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.

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

2. All lease papers, or photostatic copies thereof, mentioned in Section 18.2A 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 showing the entries pertaining to the land involved found in the records of such state.

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

C. Title Papers For Subsequent Wells.

1. When the Drilling of a Well is proposed a title examination area shall be designated:

a) As to a Subsequent Test Well or an Exploratory Well, by the Party proposing the Drilling thereof; provided that the area so designated does not exceed 2560 acres, or the Drilling Block, whichever is the greater.

b) As to a Development Well the Drilling of which has received the Approval of the Parties, by the Parties of the participating area; provided that they may designate a title examination area outside the participating area.

2. Each Party within any such title examination area shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 18.2B not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

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 at its own expense furnish Unit Operator all the title material listed in Section 18.2B relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 TITLE EXAMINATION. Promptly after all title papers delivered pursuant to Section 18.2B, C or D have been received, Unit Operator shall deliver such title papers to an attorney or attorneys approved by the Parties. Unit Operator shall arrange to have the same examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties as soon as they are received. After a title examination has been completed and a reasonable time, not exceeding thirty days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party copies of title opinions and a report concerning the title examination with written recommendation for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing within fifteen days after receipt of such title opinions or reports of approval or disapproval of titles.

18.4 OPTION FOR ADDITIONAL TITLE EXAMINATION. Any Party who furnished materials for title examination pursuant to Section 18.2B, C or D shall have the right to examine all materials furnished Unit Operator. If such additional 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 title according to the provisions of this Article 18.

18.5 EXPENSE OF TITLE EXAMINATION AND CURATIVE WORK. All expenses incurred at the direction of the Unit Operator in examination of titles to an area designated pursuant to Section 18.2 shall be charged as Costs incurred in Drilling the well for which title examination is made and all expenses incurred in examination of titles upon establishment or enlargement of a participating area shall be charged as Costs incurred in the operation of such participating area as established or enlarged. 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.

18.6 APPROVAL OF TITLES PRIOR TO DRILLING.

A. Except as provided in 18.6C below, prior to actual Drilling, title to Committed

Working Interests in the title examination area must receive the Approval of the Parties:

1. In the Drilling Block, as to Subsequent Test Wells and Exploratory Wells; and

2. In the participating area, as to Development Wells.

B. Any Party included in the Drilling Party for a well for which title examination is made as above provided, who has disapproved title to a Committed Working Interest which has been examined in connection with the Drilling of such well may withdraw from the Drilling Party by giving written notice of such withdrawal to all other Parties included in the Drilling Party within fifteen days after the recommendation of the Unit Operator on a title examination made in connection with the Drilling of the well, and the Drilling of such well shall not be commenced until the expiration of said fifteen day period.

In the event any Party so withdraws, the proposed well shall not be drilled unless within fifteen days after the giving of such notice of withdrawal, a Party or Parties included in the Drilling Party agrees in writing to bear that proportion of the Costs incurred in Drilling such well that would have been borne by the withdrawing Party; and the withdrawing Party shall become a Non-Drilling Party under the applicable provisions of Exhibit 4, and Articles 12 and 13 hereof.

C. In the event Approval of the Parties is not obtained as in this section otherwise provided, the Drilling Party may proceed with the Drilling of the well, but said Drilling Party shall, by so proceeding, assume all risks attending the potential failure of title to one or more of the tracts within the title examination area; particularly with regard to the consequences if title to a tract should fail and the true owner proves to be one who is not a Party to this Unit Operating Agreement.

18.7 APPROVAL OF TITLES ON ESTABLISHMENT OR ENLARGEMENT OF A PARTICIPATING AREA. Within fifteen days after the receipt of the recommendation of the Unit Operator on title examination made upon the establishment or enlargement of a participating area, each Party within the participating area as established or enlarged shall notify each of the other Parties therein whether it accepts or rejects title to each Committed Working Interest within such participating area as established or enlarged. Any Party rejecting title shall state the reasons therefor in writing.

If title to a Committed Working Interest is rejected by any Party by notice given as above provided, the Parties within the participating area as established or enlarged shall vote in accordance with Article 14 dealing with Supervision of Operations by Parties, on the Approval of such title. If, on such vote, the title receives the Approval of the Parties, such title shall be deemed Approved; if not, it shall be deemed disapproved. If no Party has rejected title to a Committed Working Interest by notice given as above provided, then title to such interest shall be deemed Approved without vote of the Parties.

No Committed Working Interest shall be entitled to participate in the production of Unitized Substances from any participating area until title to such Committed Working Interest has received the Approval of the Parties within such participating area.

Upon Approval of the Parties of title to a Committed Working Interest within a participating area, such approval shall be binding on all Parties within the participating area and on all additional Parties whose tracts later are included, by expansion, in the participating area.

18.8 EFFECT OF DISAPPROVAL OF TITLE ON ESTABLISHMENT OR ENLARGEMENT OF PARTICIPATING AREA. If title to the Committed Working Interest in a tract within a participating area is disapproved as provided in Section 18.7, the Party claiming such Committed Working Interest may, within thirty days after such disapproval, provide indemnity in such terms and in such amount as receives the Approval of the Parties (other than the idemnifying Party) within such participating area, on an Acreage Basis among themselves. In the absence of such idemnity, the proceeds of the Production from such tract or of the Production allocated thereto (whichever is the greater) to the extent attributable to such Committed Working Interest, after deducting Lease Burdens payable thereon, shall be paid to Unit Operator and held in suspense until title to such Committed Working Interest receives the Approval of the Parties within such participating area or until such time as such Committed Working Interest is lost through title failure; provided, however, that Unit Operator shall apply such proceeds in payment of Costs incurred in the development or operation of such participating area to the extent chargeable in respect of such Committed Working Interest.

18.9 FAILURE OF TITLE TO COMMITTED WORKING INTEREST BEFORE APPROVAL. If title to any Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties hereto who improperly claimed an interest in said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify the Unit Operator and all other Parties from any and all liability on account thereof.

18.10 FAILURE OF TITLE TO COMMITTED WORKING INTEREST AFTER APPROVAL. If title to a Committed Working Interest which has received the Approval of the Parties under Section 18.6A(1) as to a Drilling Block, or under Section 18.7 as to establishment or enlargement of a participating area, fails in whole or in part then:

1. The loss and any ensuing liability shall be charged as a common loss of the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest); and

2. There shall be relinquished to the Party whose Committed Working Interest has been lost, such proportionate part of each of the other Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like portion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the parties within such participating area or Drilling Block; and

3. The relinquished portions of said Committed Working Interests shall be deemed owned by the Party receiving the same, subject to a proportionate part of their respective Lease Burdens for all purposes of this Agreement.

18.11 JOINDER BY TRUE OWNER. If title to a Committed Working Interest fails in whole or in part, such Commited Workirg Interest shall no longer be subject to this Agreement and Unit Agreement. A true Owner of a Working Interest, title to which has failed, may join in this Agreement or enter upon a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the approval of the Parties within the unit area; and subject to any valid claims by the true Owner.

ARTICLE 19

UNLEASED INTERESTS

ILLEGIBLE

Unless specifically provided under "other provisions" (following Article 36) herein this Agreement is silent as to unleased interests.

ARTICLE 20

RENTALS AND LEASE BURDENS

20.1 RENTALS. Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interest in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payments provided it has acted in good faith.

20.2 LEASE BURDENS. The Party or Parties entitled to receive the Production allocated to a tract of land within a participating area shall be obligated to make any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests and any similar interest payable in respect of such Production or the proceeds thereof, except as provided in Article 22 dealing with Withdrawal of Tracts and Uncommitted Interests. The Party or Parties entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 LOSS OF COMMITTED WORKING INTEREST. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area the provisions of Subdivisions of Section 18.10 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21

TAXES

21.1 PAYMENT. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owner thereof) or upon materials, equipment, or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) including severance and sales 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 as and when due and payable by Unit Operator or by the Party "taking in kind" as more specifically provided in Articles 6.5 and 6.6 herein.

21.2 APPORTIONMENT. 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. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. 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.

21.3 TRANSFER OF INTERESTS. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of 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 apportioned 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.

21.4 NOTICES AND RETURNS. 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.

ARTICLE 22

WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 LIMITATION ON RIGHT OF WITHDRAWAL. Not less than five days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of unitized lands and Lease Burdens on Production therefrom. If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement; provided, however, that such right shall not be exercised until after at least ten days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement.

22.2 THE EFFECT OF NON WITHDRAWAL AT DIRECTION OF PARTIES. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the follow-int provisions shall apply:

A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located.

B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.

22.3 VOLUNTARY NON-WITHDRAWAL. If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23

COMPENSATORY ROYALTIES

23.1 NOTICE. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 DEMAND FOR FAILURE TO DRILL A DEVELOPMENT WELL. If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 DEMAND FOR FAILURE TO DRILL A WELL OTHER THAN A DEVELOPMENT WELL. If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24

SEPARATE MEASUREMENT AND SALVAGE

24.1 SEPARATE MEASUREMENT. If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines 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 for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 SALVAGED MATERIALS. If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties entitled to participate therein 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 Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 CONSENT REQUIRED. Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the approval of the Parties of the Committed Working Interests in the participating area affected by any such program; such approval to be determined by vote of the Committed Working Interests as defined in Article 14.2 hereof, unless a different voting requirement is agreed to by the Parties, in which event it will be shown on Exhibit A hereto. After the Parties have voted to undertake a program of seconday recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 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, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26

TRANSFERS OF INTEREST

26.1 SALE BY UNIT OPERATOR. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.2 ASSUMPTION OF OBLIGATIONS. No transfer of any Committed Working Interests shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this agreement insofar as 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.

26.3 EFFECTIVE DATE. A transfer of Committed Working Interests 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 26.2. 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, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27

RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 SURRENDER OR RELEASE WITHIN PARTICIPATING AREA. A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations of any particular Committed Working Interest or Interests with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area the particular Committed Working Interest or Interests owned by such Party in lands within the participating area, together with the specific interest of such Party's Committed Working Interest in any and all wells, materials, equipment and other property applicable to such surrendered interest or interests.

27.2 PROCEDURE ON SURRENDER OUTSIDE PARTICIPATING AREA. Whenever a Party desires to surrender its Committed Working Interest in any tract which is not within any participating area, such Party shall give to all other Parties written 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 desiring to surrender an assignment of such Committed Working Interest by giving to the Party desiring to surrender written notice of election so to do within thirty days after receipt of the 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 Committed Working Interests among themselves in the Unit Area) shall pay to the assigning Party its share of the Salvage Value of any wells owned by the Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty 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.

27.3 ACCRUED OBLIGATIONS. A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to Participate prior to the making of 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 hereunder and under the Unit Agreement.

ARTICLE 28

SEVERAL, NOT JOINT LIABILITY

28.1 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.

28.2 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 of association between the Parties, or to render them liable as partners or associates.

28.3 ELECTION. Each of the Parties hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury of the United States or his delegate insofar as such Subchapter or any portion or portions thereof may be applicable to the Parties. If any present income tax laws of the state or states in which the Unit Acre is located, contain or shall hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the Parties hereby elects to be excluded from the application of such laws. Accordingly, each Party hereby authorized and directs Unit Operator to execute such an election or elections on its behalf and file the same with the proper administrative office or agency. If requested by Unit Operator, each Party agrees to execute and join in such instruments as are necessary to make such election effective.

ARTICLE 29

NOTICES

29.1 GIVING AND RECEIPT. Except as otherwise specified herein, any notice, consent or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party, it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 14.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given

nly when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph, properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

29.2 PROPER ADDRESSES. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten days prior written notice to all other Parties.

ARTICLE 30

EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 COUNTERPARTS. This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 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.

ARTICLE 31

SUCCESSORS AND ASSIGNS

31.1 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 and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32

HEADINGS FOR CONVENIENCE

32.1 HEADINGS. The table of contents and the headings used in this agreement are inserted for convenience only, and unless used in the text of the subject section or subsection shall be disregarded in construing this agreement.

ARTICLE 33

RIGHT OF APPEAL

33.1 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 34

SUBSEQUENT JOINDER

34.1 PRIOR TO 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.

34.2 AFTER COMMENCEMENT OF OPERATIONS. After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may recieve the Approval of the Parties, voting on a total unit area Committed Working Interest basis.

ARTICLE 35

CARRIED INTERESTS

35.1 TREATMENT OF. If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36

EFFECTIVE DATE AND TERM

36.1 EFFECTIVE DATE. This agreement shall become effective on the effective date of the Unit Agreement except that the provisions of Section 22.1 dealing with Limitation on Right of Withdrawal shall be operative prior to such effective date.

36.2 TERM. The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 EFFECT OF TERMINATION. Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement and 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 unitl 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.

36.4 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 forty-eight months from and after the date of this agreement, then at the expiration of said period, this agreement shall terminate.

OTHER PROVISIONS, IF ANY, ARE SET FORTH COMMENCING ON PAGE 16

(OTHER PROVISIONS)

ARTICLE 37

NO OBLIGATION TO REPRESENT OTHER PARTIES BEFORE FEDERAL POWER COMMISSION

37.1 NO OBLIGATION TO REPRESENT OTHER PARTIES BEFORE FEDERAL POWER COMMISSION. This agreement shall not be construed to provide that any Party is obligated to represent any other Party hereto before the Federal Power Commission.

(OTHER PROVISIONS)

ARTICLE 38

SUBSEQUENTLY CREATED LEASE BURDENS

38.1 SUBSEQUENTLY CREATED LEASE BURDENS. If any working interest owner shall, subsequent to the execution of this agreement, create an overriding royalty, production payment, net profits interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created burden") such subsequently created burden shall be specifically made subject to all the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created becomes a Non-Drilling Party in an operation hereunder and as a result relinquishes interest in Production to the Drilling Party, then such Non-Drilling Party shall hold harmless the Drilling Party from any reduction in Production that might otherwise occur by virtue of the subsequently created burden, and the Drilling Party shall, until reversion of the relinquished interest occurs, receive such Production free and clear of any burdens other than those existing at the time the subject lands were committed to the Unit Agreement.

Further, if the working interest owner from which such subsequently created interest is created:

(a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses,

(b) elects to surrender a lease under Article 27 hereof, or

(c) withdraws from this agreement as provided in Article 27,

the subsequently created interest shall be chargeable with a pro rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Article 15 hereof for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

(OTHER PROVISIONS)

ARTICLE 39

TREATMENT OF NON-COMMITTED LANDS

39.1 POOLING, OR COMMUNITIZATION, OF UNIT LANDS WITH NON-UNIT LANDS. Subject to the terms of this Section 39.1, Unit Operator is empowered to pool, or communitize, lands committed to this Unit Operating Agreement with uncommitted lands for the purpose of providing a drilling, or spacing, unit which conforms with the provisions of the appropriate order of the regulatory agency of the government of the state in which the lands are located.

Insofar as Committed Working Interests of Unit lands are concerned, the procedure for Drilling and the sharing of costs of a well drilled on such a pooled tract shall be as provided in this Unit Operating Agreement for the appropriate well classification (Subsequent Test Well or Exploratory Well, if the lands be outside an established participating area; or Development Well if the Unit lands are within the boundary of an established participating area; or Required Well - either development or exploratory - if the Unit lands have been "force-pooled" by the state regulatory agency as the result of an application made by the owners of the non-unit lands); and the costs chargeable to the Committed Interests shall be that proportionate part of the well's costs allocated to the Committed Interests of Unit lands within the spacing unit.

If the Drilling of a well is proposed on a tract of land (either a Drilling Block if for an Exploratory Well, or portion of a participating area if for a Development Well) which is within an area covered by a spacing order of the state regulatory agency and a portion of the spacing unit as prescribed by such order covers non-committed lands as well as Committed Lands, then, upon the Direction of the Drilling Party, the Unit Operator will:

(a) seek the voluntary pooling of the subject lands within the spacing unit,

or, failing to secure voluntary pooling,

(b) if so directed by the Drilling Party, take proper action, including application to the appropriate governmental agency, to secure the "forced-pooling" of the subject non-committed lands;

and

(c) prosecute, in accordance with the terms hereof, the Drilling of said well.

The proportionate share of the Production allocated to the Committed Interests of Unit lands shall be treated the same as that for any other Production of Unitized Substances and in accordance with the applicable provisions of this Unit Operating Agreement, but particularly with reference to Articles 6, 8, 9, 12, 13 and Exhibit 4.

39.2 TREATMENT OF UNCOMMITTED ROYALTY INTERESTS. Should the owner of a royalty interest, or the owner of an overriding royalty interest insofar as the override is less than its proportionate part of one-eighth (1/8th) of leasehold interest, in a tract of land committed to the Unit Agreement and Unit Operating Agreement fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the Lease Burdens of the Party entitled to receive the Production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of Production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall reimburse that Party for the full amount of such excess Lease Burdens and shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to the Unit Operator for distribution to all Parties.

(OTHER PROVISIONS)

ARTICLE 40

SUPERIORITY OF UNIT OPERATING AGREEMENT

40.1 SUPERSEDENCE BY UNIT OPERATING AGREEMENT. Except for Committed Working Interests under lands and as to formations from which WISP (defined in Section 6.4 and, if applicable, described in Exhibit A) may be taken, this Unit Operating Agreement supersedes - or is superior to - any previously existing operating agreements covering the Working Interests committed hereto for so long as the subject Interests are committed to the Unit Agreement and Unit Operating Agreement.