

**UNIT OPERATING AGREEMENT
FOR THE
WEST TEAS (YATES - SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO**

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UNIT OPERATING AGREEMENT

FOR THE

WEST TEAS (YATES – SEVEN RIVERS) UNIT AREA

LEA COUNTY, NEW MEXICO

THIS AGREEMENT ("this agreement" or "this Operating Agreement"), entered into as of the first day of November, 1999, by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date thereof, an agreement entitled, "Unit Agreement for the Development and Operation of the West Teas (Yates - Seven Rivers) Unit Area, Lea County, New Mexico" (the "Unit Agreement"), which among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT AND DEFINITIONS

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

1.2 Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. The words, terms and phrases used in this Agreement are written to convey the most common industry meaning or understanding, but shall also be construed to mean the plural if written in the singular and vis versa. In addition, the following terms, when used herein, shall have the following meanings:

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

1.2.2 Unit Implementation Participation is the figure calculated for each Working Interest Owner by taking the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Implementation Tract Participation Factor of such Tract and is set forth in Exhibit "D-2" hereto. Unit Implementation Participation is used to allocate Implementation Expense, i.e. capital expenditures incurred in implementing the waterflood project, both in the beginning and over the life thereof.

1.2.3 Implementation Tract Participation or Implementation Tract Participation Factor or ITPF is defined as the percentage of participation shown on Exhibit "D-3" for allocating Implementation Expense to a Tract under this Agreement.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits "A", "B" and "C" of the Unit Agreement.

2.1.2 Exhibits "D-1", "D-2" and "D-3", attached hereto, are schedules showing respectively, (a) the percentage of total Unit Participation attributable to each Working Interest Owner in each Tract, (b) the percentage of total Unit Implementation Participation attributable to each Working Interest Owner in each Tract, and (c) the Implementation Tract Participation for each Tract. Exhibits "D", or revisions thereof, shall not be conclusive as to the information therein, except they may be used as showing the Unit Participation and the Unit Implementation Participation of the Working Interest Owners for purposes of this agreement until shown to be in error or as revised as herein authorized.

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

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

2.1.4 Exhibit "G", attached hereto, contains Inventory and Pricing of material taken into Unit Operations.

2.1.5 Exhibit "H", attached hereto, contains Equal Opportunity Clause applicable to Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits "A", "B" and "C" are revised, Exhibit "D" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise the Exhibit "D" from time to time, as required, to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

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

ARTICLE 3 SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

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

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

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, enhanced recovery or other recovery program to be employed.

3.2.2 Drilling and Recompletion of Wells. The drilling, deepening or plugging back of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletion and Change of Status. The recompletion, abandonment or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Unit Operator's Tools and Equipment. The use by Unit Operator of its own tools and equipment in the drilling of a well or in any other operation in which drilling equipment is required.

3.2.5 Expenditures. The making of any single expenditure in excess of Twenty-Five Thousand Dollars (\$25,000.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening or plugging back of any well shall include approval of all

necessary expenditures required therefore, and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.

3.2.6 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is in excess of Ten Thousand Dollars (\$10,000.00).

3.2.7 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; and shall be made in accordance with Article 4, Paragraph 4.3.2; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf, at its expense.

3.2.8 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder, provided that the audits shall:

(a) Not be conducted more than once each year, except upon the resignation or removal of Unit Operator;

(b) Be made upon the approval of sixty percent (60%) or more of the Unit Participation interests of the Working Interest Owners, after excluding the Unit Participation interest of the Unit Operator, voting in the affirmative, at the expense of all Working Interest Owners, other than the Working Interest Owner designated as Unit Operator; and

(c) Be made upon not less than thirty (30) days written notice to Unit Operator and in accordance with guidelines established by the Council of Petroleum Accountants Societies.

3.2.9 Inventories. Taking of periodic inventories under the terms of Exhibit "E".

3.2.10 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit "E".

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

3.2.12 Removal of Unit Operator. The removal of Unit Operator and the selection of a successor as provided in the Unit Agreement.

3.2.13 Changes and Amendments. The changing of the Unit Area or the amending of this agreement or the Unit Agreement as provided by the Unit Agreement.

3.2.14 Investment Adjustment. The adjustment and readjustment of investments.

3.2.15 Termination of Unit Agreement. The termination of the Unit Agreement as provided therein.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one (1) or more of the Working Interest

Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called less than fourteen (14) days advance written notice. The Owner requesting the meeting shall prepare an agenda outlining the topics to be discussed at the proposed meeting and attach it to the notice requesting the meeting. Working Interest Owners who attend the meeting shall not be prevented from adding to or amending items on the agenda or from deciding the amended items or other added items presented at the meeting. The representative of the Unit Operator shall be chairman of each meeting. The Unit Operator will prepare and furnish minutes of all meetings to the Working Interest Owners.

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

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of seventy-five (75%) or more voting interest; provided that, should any one Working Interest Owner have more than seventy-five (75%) of the voting interest, its vote must be supported by the vote of one (1) or more Working Interest Owners. The negative vote of any one Working Interest Owner having more than twenty percent (20%) of such voting interest shall not defeat a motion or measure, unless such owner is joined by the negative vote of one or more other Working Interest Owners.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter, fax or telegram addressed to the representative of the Unit Operator, if its vote is received prior to the vote on the item. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4. Poll Votes. Working Interest Owners may vote by letter, fax or telegram on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall control. Failure to vote within the time prescribed by the Unit Operator, which shall be no less than fourteen (14) days after receipt of such matter, shall be deemed to be a positive vote with respect to the proposal. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

4.3.5 Binding Effect of Vote. All Working Interest Owners shall be bound for their proportionate share of all costs and expenses of Unit Operations approved by the Working Interest Owners by the vote required herein.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times at Working Interest Owner's sole risk and expense to inspect Unit Operations, all wells, and the records and data pertaining thereto.

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

5.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be taken in kind by the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right at their sole cost and expense, to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose working interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

5.4 Failure to Take in Kind. If any party fails to take in kind or separately dispose of such party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the party owning the share and giving Unit Operator thirty (30) days written notice thereof, to purchase such share for its own account or to sell to others, at the same market value realized by Unit Operator. However, should Unit Operator's purchaser of Unitized Substances be an affiliate, such party's share of Unitized Substances shall be purchased by Unit Operator or sold, unless otherwise agreed to in writing, at an equivalent price to the best price obtainable in the area for such production from an independent purchaser. The intent of the parties is to keep the production and the sale of Unitized Substances balanced at all times. Contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid in accordance with the Unit Agreement and applicable laws and regulations.

5.5 No Sharing of Market. Nothing herein shall be construed to provide directly or indirectly for any cooperative refining, joining sale or marketing of Unit Production.

ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator. Falcon Creek Resources, Inc. is hereby designated Unit Operator.

ARTICLE 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports on Unit Operation.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty-Five Thousand Dollars (\$25,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its reasonable opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken. Upon request, Unit Operator shall furnish Working Interest Owners, for information purposes, copies of its Authorities for Expenditures for any single project costing in excess of Twenty-Five Thousand Dollars (\$25,000.00), and for lesser amounts when prepared for Unit Operator's own use.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefore shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

ARTICLE 8 TAXES

8.1 Severance, Gross Products and Ad Valorem Taxes. Beginning with the first calendar year after the effective date hereof, Unit Operator shall render and pay on behalf of the Working Interest Owners severance and gross products taxes assessed on oil and gas produced and ad valorem tax on all property subject to this agreement, before they become delinquent. Prior to the rendition date, each Working Interest Owner shall furnish the Unit Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) and taxable and non-taxable interests on leases and oil and gas interests contributed by such Working Interest Owner. If the assessed tax of any leasehold estate or produced Substances is reduced by reason of its being subject to outstanding excess royalties, overriding royalties, reimbursements, or production payments, the reduction in taxes shall inure to the benefit of the owner or owners of such leasehold or Unitized Substances, and Unit Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Unit Operator shall charge the Working Interest Owners for their proportionate share of severance and gross products tax at the date the tax is assessed based on the value each Working Interest Owner receives for their sales of the unitized substances. Unit Operator shall charge the Working Interest Owners for their proportionate share of all other tax payments in the manner provided in Exhibit "E" and other parties for their share in the manner provided in the Unit Agreement.

If Unit Operator considers any tax assessment improper, Unit Operator may, after notice to Working Interest Owners, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. All direct expenses incurred by Unit Operator in protesting an assessment will constitute a direct charge to the joint account only upon approval by a vote of the Working Interest Owners. During the pendency of administrative or judicial proceedings, Unit Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax for the joint account and other parties, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them as provided in Exhibit "E" and the Unit Agreement, respectively.

8.2 Notices. Each Working Interest Owner shall promptly furnish the Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by the Unit Operator. Each month, the Working Interest Owners shall furnish the Unit Operator with the gross value of any production taken in kind or other information necessary in order for the Unit Operator to compute the severance and gross products tax on the unitized substances.

8.3 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all gathering or other taxes or excises due the State of New Mexico, the Federal Government, or otherwise, together with all licenses and excises, which are now imposed or may be imposed upon or with respect to the production or handling of its share of unitized substances.

ARTICLE 9 INSURANCE

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

9.1.1 Comply with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit "F".

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells completed or to be completed in the Unitized Formation, as shown in the initial Plan of Operation and Development and all service wells to be utilized for Unit Operations, including water supply and disposal wells, completed within or outside the Unitized Formation.

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

10.1.3 Records. A complete copy of all production and well records that pertain to such wells. In the event a Working Interest Owner fails to provide Unit Operator with said records within sixty (60) days of the Effective Date, then the Unit Operator is hereby authorized to suspend in-kind delivery or payment of proceeds of production to said Working Interest Owner, of its share of Unit Production, until said records are provided to the Unit Operator.

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

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2 and evaluated under Section 10.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 and evaluated under Section 10.2 by the

Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

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

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

10.6 Adjustment for Non-Usable Wells. All wells delivered to the Unit Operator shall be (a) in usable physical condition, (b) completed in some portion of the Unitized Formation, and (c) physically separated from formations not a part of the Unitized Formation as of the Effective Date. If within three (3) months from the date of takeover, Unit Operator reports to Working Interest Owners, the wells that were not in suitable condition to serve Unit Operator on the date of takeover and the Working Interest Owners approve, Unit Operator shall properly place such well in suitable condition to serve Unit Operator, or drill a substitute well if such well cannot be placed in suitable condition to serve Unit Operator, at the sole cost of the Working Interest Owner who delivered such well and casing to Unit Operator. It is the intent of this Section 10.6 that the cost of normal conversion of wells and casing therein from operating practices utilized immediately prior to the date of takeover to operating practices contemplated hereunder shall be a Unit Expense.

10.7 Surface Leases. Upon the effective date hereof Working Interest Owners shall deliver to Unit Operator assignment(s) of all surface lease agreements pertaining to the Unit Area, but only to the limited extent they relate to production from the Unitized Formation or Unit Operations. Unit Operator shall become responsible for all future rentals on behalf of Working Interest Owners. All said surface unit rental costs shall be apportioned to each Working Interest as set forth in Exhibit "D".

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charges to Working Interest Owners. Unit Operator initially shall pay and discharge all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of Unit Expense (including Operational Expense) shall be the same as its Unit Participation, except as to Implementation Expense. Each Working Interest Owner's share of Implementation Expense shall be the same as its Unit Implementation Participation.

11.2 Budgets. Before or as soon as practical after the Effective Date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and on or before the first day of each November thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments

between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of 10 percent (10%) above the current prime rate charged by the BostonBank N.A., on the first day of the following month, or maximum rate as permitted by law. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment of a defaulting Working Interest Owner's share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Working Interest Owners to secure payment of Unit Operator's proportionate share of Unit Expense.

11.6 Unpaid Unit Expenses. If any Working Interest Owner, other than Unit Operator, fails to pay its share of Unit Expense 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 Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense 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 Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-Out Interests. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest and created after the Effective Date of this agreement shall be subject to this agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Article 11.5 are sufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to said rights.

11.8 Pre-Unitization Expense. Prior to the Effective Date, Unit Operator and other Working Interest Owners have incurred certain costs and expenses for and on behalf of the Working Interest Owners in anticipation of the Unit Agreement and this agreement becoming effective, including but not limited to title review, document preparation, mailings and attorneys' fees related to presentation of the unitization proposal to the Division. Such costs approved by the Working Interest Owners shall herein be referred to as "Pre-Unitization Expenses". As soon as practicable after the Effective Date of this agreement, Pre-Unitization Expenses shall be reallocated and billed among all Working Interest Owners in accordance with the Unit Participation interest of each such owner. Credit shall be given for payments made by Working Interest Owners prior to the Effective Date for costs included in the Pre-Unitization Expenses. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charge described above.

ARTICLE 12
NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals from other than the Unitized Formation shall have the right to do so, notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

12.2 Dual Completions. There shall be no dual completions of wells within the Unit Area as to the Unitized Formation and another formation.

ARTICLE 13
TITLES

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

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participation of the other Working Interest Owners at the time of the title failure.

13.3 Waiver of Rights to Partition. Each Lessee and Working Interest Owner hereto agrees that, during the existence of this agreement, it will not resort to any action to partition the interval of the formation unitized hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14
UNLEASED INTERESTS

14.1 Treated as Leased. If a Working Interest Owner owns in fee all or a part of the Oil and Gas Rights in any Tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract to the extent of seven-eighths (7/8ths) of its interest therein and a Royalty Interest with respect to the remaining one-eighth (1/8th) interest therein.

ARTICLE 15
LIABILITY, CLAIMS, SUITS, AND FORCE MAJEURE

15.1 Individual Liability. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership, joint venture, association or trust of any kind among the Working Interest Owners.

15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Ten Thousand Dollars (\$10,000.00), provided the payment is in complete settlement of such claim or suit. If the

amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator.

All costs and expense of handling, settling or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

15.3 Notices of Damages, Claims and Suits by Unit Operator to Lessees. Unit Operator shall report to Lessees as soon as practicable after each occurrence, damages or losses to Unit Equipment, and accidents, occurrences, claims or suits involving third party bodily injury or property damage which are not covered by insurance carried for the benefit of Lessees.

15.4 Force Majeure. Any obligation imposed by this agreement on each party, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by Federal, State or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure materials, services or equipment, or by any other cause beyond the reasonable control of such party. No party shall be required against its will to adjust or settle any labor dispute. Neither this agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to any of the causes set forth in this Article.

ARTICLE 16 INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement may be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations and rulings now in effect or hereafter enacted that have an effect similar to the Federal provisions referred to herein.

ARTICLE 17 NOTICES

17.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when received by mail, overnight delivery, facsimile transmission (fax), electronic mail (e-mail) or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

17.2 Notice of Transfer of Title. No change of title shall be binding on the Unit Operator until the first day of the calendar month next succeeding the date of receipt by Unit Operator of evidence, satisfactory to it, of such change of ownership. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligation of the predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the party or parties acquiring such interest all benefits attributable hereunder to such interest.

ARTICLE 18
WITHDRAWAL OF WORKING INTEREST OWNERS

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

18.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 18.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any Royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of a one-eighth (1/8th) lessor's Royalty, unless the other Working Interest Owners are willing to accept the assignment and agree to accept the Working Interest, subject to such burdens.

ARTICLE 19
ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, the Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of thirty (30) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after Working Interest Owners of the Tract have notified Unit Operator of their election take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

19.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 20
EFFECTIVE DATE AND TERM

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

20.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 21
ABANDONMENT OF OPERATIONS

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

21.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts and other instruments affecting the separate Tracts.

21.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and to continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to properly plug each well at such time as it is abandoned.

21.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be properly plugged and abandoned.

21.1.4 Cost of Salvaging. The cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations shall constitute a Unit Expense to be borne by the Working Interest Owners in proportion to their respective Unit Participation.

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

ARTICLE 22
SIGNING, RATIFICATION, OR APPROVAL

22.1 Original, Counterparts, or Ratifications. This agreement may be signed, ratified or approved by signing the original of this instrument, a counterpart or other instrument adopting the provisions hereof, all with the same effect as if all persons had signed the same instrument. Persons signing, ratifying or otherwise approving this agreement thereby agree to all of the provisions hereof.

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

ARTICLE 23
SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases and interests covered hereby and shall be binding upon and inure to the benefit of the respective heirs,, devisees, legal representatives, successors and assigns of the parties hereto.

ARTICLE 24
OTHER PROVISIONS

24.1 Environmental Warranty and Representation. Each Working Interest Owner that operates a property to be contributed to the Unit, represents and warrants that it has conducted the following environmental review of the contributed property:

(a) A review of applicable lease and well file information and of any other sources of information that would be relevant to evaluating the environmental status of the contributed property.

(b) A visual inspection of the contributed property to identify any obvious past or present land uses that dictate further investigation.

Prior to the Effective Date, each Working Interest Owner that operates a property to be contributed to the Unit shall report the results of such review and inspection, in writing, to all other Working Interest Owners, including the Unit Operator.

24.2 Removal of Surplus Equipment. The applicable Working Interest Owner shall be responsible and liable for the removal of (a) any surplus equipment or facilities deemed unnecessary for the operation of the Unit by the Unit Operator, and (2) junk and/or debris from their contributed property, including, but not limited to, chemical drums, paint cans, grease buckets, rags, tires, belts, sucker rods, tubing, paraffin, and oil filters. Should any tank batteries or facilities be deemed surplus equipment due to consolidation or otherwise, in addition to removal of the same, the applicable Working Interest Owner shall be required to conduct environmental remediation to the level required by the agency regulating such remediation, if any, or as required by the applicable oil and gas leases. Within 180 days of the Effective Date, should any well be deemed surplus or unnecessary for the operation of the Unit, all costs associated with said well shall remain the responsibility of the well's operator and the applicable Working Interest Owner, said costs shall include, but not limited to, (i) the cost of well plugging and abandonment, and (ii) all costs of environmental remediation of the area around said well which is associated with the operation, plugging and abandonment of said well to the level required by the agency regulating such remediation, if any, of as required by the applicable oil and gas leases. Any surplus equipment, facilities, junk and/or debris that is not removed by the applicable Working Interest Owners within 180 days from the Effective Date will then be removed by the Unit Operator, but associated expenses will be charged directly back to said Working Interest Owner.

24.3 Environmental Indemnification. Notwithstanding any others provisions set forth herein, the Working Interest Owners of lands contributed to the Unit shall retain all environmental liability of any nature, whatsoever, caused by or resulting from its operations, or the operations of others, prior to the Effective Date hereof, and shall indemnify and hold harmless all other Working Interest Owners in the Unit against all claims, demands, damages, losses, liabilities, penalties, fines, liens, judgements, costs or expenses, including attorney's fees, whatsoever, foreseen or unforeseen, that may arise on account of or in any way be connected with the physical condition of the lands prior to inclusion of said equipment, facilities and/or lands into this Unit. This includes, but is limited to, environmental liability claims brought under any state, federal, or local law, order or regulation, whether known or unknown at this time.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

FALCON CREEK RESOURCES, INC.

By: Roger Alinger, President
621 Seventeenth Street, Suite 1800
Denver, Colorado 80293-0621

STATE OF COLORADO §
CITY AND §
COUNTY OF DENVER §

This instrument was acknowledged before me on the _____ day of November, 1999 on behalf of Falcon Creek Resources, Inc., a Delaware corporation, by Roger Alinger, its President, on behalf of said corporation.

April J. Carlson, Notary Public
621 17th St., Suite 1800, Denver, CO 80292-0621
My Commission Expires February 20, 2002

**SIGNATURE PAGE FOR THE
WEST TEAS (YATES - SEVEN RIVERS) UNIT OPERATING AGREEMENT
LEA COUNTY, NEW MEXICO**

FALCON CREEK RESOURCES, INC.

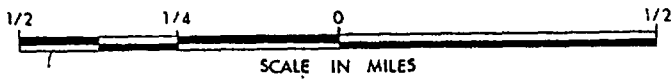
DENVER, COLORADO

9-20-99

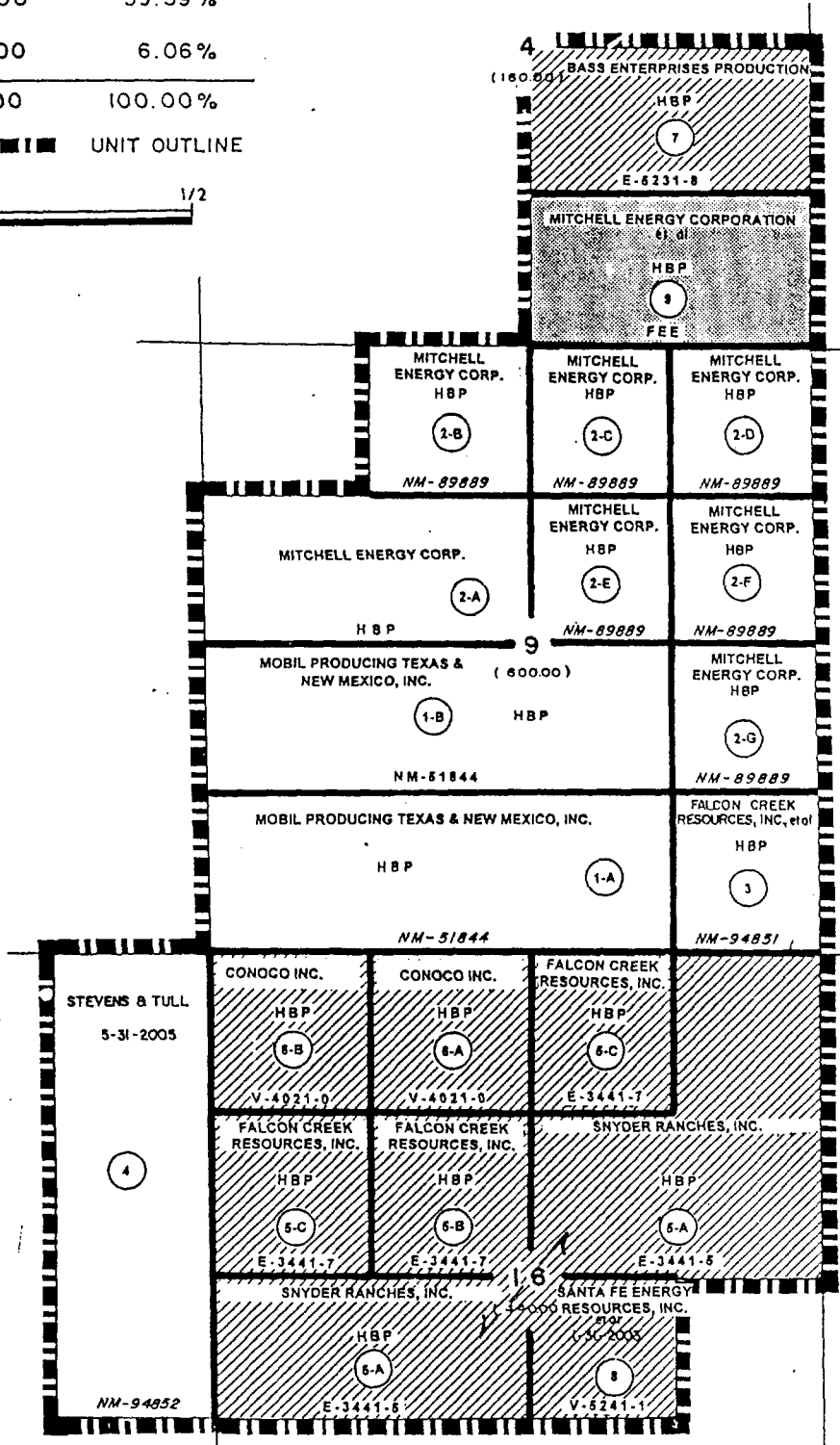
	ACREAGE	PERCENTAGE
FEDERAL LANDS	720.00	54.55 %
STATE LANDS	520.00	39.39 %
PATENTED LANDS	80.00	6.06 %
TOTAL	1,320.00	100.00 %

R 33 E

③ TRACT NUMBER ■■■■ UNIT OUTLINE



T
20
S



17
(120.00)

Exhibit "A"
WEST TEAS (YATES-SEVEN RIVERS)
UNIT AREA
LEA COUNTY, NEW MEXICO

EXHIBIT "B"

SCHEDULE OF OWNERSHIP OF OIL AND GAS INTERESTS
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER LEASE EXPIRATION LEASE STATUS	ROYALTY OWNERSHIP		LESSEE OF RECORD		OVERRIDING ROYALTY		WORKING INTEREST	
				BASIC ROYALTY PERCENTAGE	PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE		
FEDERAL LANDS: T20S-R33E, N.M.P.M.											
1A.	Sec. 9: S/2 SW/4, SW/4 SE/4	120.00	NM-51844 Effective 4-1-82 HBP	U.S.A. 12.5% Royalty	All	Mobil Producing TX & NM, Inc.	100.0000000%	Mobil Producing TX & NM, Inc.	7.50000%	Falcon Creek Resources, Inc.	100.0000000
1B.	Sec. 9: N/2 SW/4, NW/4 SE/4	120.00	NM-51844 Effective 4-1-82 HBP	U.S.A. 12.5% Royalty	All	Mobil Producing TX & NM, Inc.	100.0000000%	Mobil Producing TX & NM, Inc.	7.50000% 5.00000%	Falcon Creek Resources, Inc.	100.0000000
2A.	Sec. 9: S/2 NW/4	80.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.0000000%	Southeast Royalties, Inc.	12.50000%	Falcon Creek Resources, Inc.	100.0000000
2B.	Sec. 9: NE/4 NW/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.0000000%	Southeast Royalties, Inc.	12.50000%	Falcon Creek Resources, Inc. PATCO, Ltd. Sid Cowan Sheehy & Richardson	94.116471' 2.500000' 2.383529' 1.000000'
2C.	Sec. 9: NW/4 NE/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.0000000%	Southeast Royalties, Inc.	12.50000%	Falcon Creek Resources, Inc. Sid Cowan Charles McNeese Sheehy & Richardson	94.605871' 2.228000' 2.000000' 1.166129'
2D.	Sec. 9: NE/4 NE/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.0000000%	Southeast Royalties, Inc.	12.50000%	Falcon Creek Resources, Inc. PATCO, Ltd. Sid Cowan Sheehy & Richardson	94.500000' 2.500000' 2.000000' 1.000000'
2E.	Sec. 9: SW/4 NE/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.0000000%	Southeast Royalties, Inc.	12.50000%	Falcon Creek Resources, Inc. Kenneth English Sheehy & Richardson Sid Cowan	88.316213' 10.000000' 1.000000' 0.683787'

EXHIBIT "B"

SCHEDULE OF OWNERSHIP OF OIL AND GAS INTERESTS
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER LEASE EXPIRATION LEASE STATUS	ROYALTY OWNERSHIP		LESSEE OF RECORD		OVERRIDING ROYALTY		WORKING INTEREST	
				BASIC ROYALTY PERCENTAGE	PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE
2F.	Sec. 9: SE/4 NE/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.000000%	12.5000%	12.5000%	Falcon Creek Resources, Inc. PATCO, Ltd. Sid Cowan Sheehy & Richardson	94.250000% 2.500000% 2.000000% 1.250000%
2G.	Sec. 9: NE/4 SE/4	40.00	NM-89889 Effective 4-1-84 HBP	U.S.A. 12.5% Royalty	All	Mitchell Energy Corporation	100.000000%	12.5000%	12.5000%	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	97.000000% 2.000000% 1.000000%
3.	Sec. 9: SE/4 SE/4	40.00	NM-94851 Effective 6-1-95 HBP	U.S.A. 12.5% Royalty	All	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	97.000000% 2.000000% 1.000000%	5.7500%	5.7500%	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	97.000000% 2.000000% 1.000000%
4.	Sec. 17: E/2 NE/4, NE/4 SE/4	120.00	NM-94852 Effective 6-1-95 Expires 5-1-2005	U.S.A. 12.5% Royalty	All	Trilogy Operating, Inc.	100.000000%	12.5000%	12.5000%	Trilogy Operating, Inc. Falcon Creek Resources, Inc.	100.000000% 100.000000%

10 FEDERAL TRACTS TOTALING 720.00 ACRES OR 54.55% OF THE UNIT AREA

EXHIBIT "B"

SCHEDULE OF OWNERSHIP OF OIL AND GAS INTERESTS
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER LEASE EXPIRATION LEASE STATUS	ROYALTY OWNERSHIP		LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST		
				BASIC ROYALTY PERCENTAGE	PERCENTAGE		OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	
STATE LANDS: J20S-R33E-N.M.P.M.											
5A.	Sec. 16: NE/4 NE/4, S/2 NE/4, N/2 SW/4	200.00	E-3441-5 Effective 4-10-50 HBP	State of New Mexico 12.5% Royalty	All	Snyder Ranches, Inc.	100.00000000%	Laguna Gatuna, Inc. Douglas Tull Robert D. Stevens Randy Hall	5.0000% 2.5000% 2.5000% 2.5000%	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	97.000000 2.000000 1.000000
5B.	Sec. 16: SE/4 NW/4	40.00	E-3441-7 Effective 4-10-50 HBP	State of New Mexico 12.5% Royalty	All	Falcon Creek Resources, Inc.	100.00000000%	Vicki Shackelford	4.1667%	Falcon Creek Resources, Inc.	100.000000
5C.	Sec. 16: NW/4 NE/4, SW/4 NW/4	80.00	E-3441-7 Effective 4-10-50 HBP	State of New Mexico 12.5% Royalty	All	Falcon Creek Resources, Inc.	100.00000000%	Vicki Shackelford	4.1667%	Falcon Creek Resources, Inc.	100.000000
6A.	Sec. 16: NE/4 NW/4	40.00	V-4021-0 Effective 5-1-92 HBP	State of New Mexico 16.666667% Royalty	All	Conoco Inc.	100.00000000%	Conoco Inc. Douglas Tull Robert D. Stevens Randy Hall	4.8333% 1.1667% 1.1666% 1.1667%	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	96.924030 2.075970 1.000000
6B.	Sec. 16: NW/4 NW/4	40.00	V-4021-0 Effective 5-1-92 HBP	State of New Mexico 16.666667% Royalty	All	Conoco Inc.	100.00000000%	Conoco Inc. Douglas Tull Robert D. Stevens Randy Hall	4.8333% 1.1667% 1.1666% 1.1667%	Falcon Creek Resources, Inc. Sid Cowan Sheehy & Richardson	96.909405 2.090595 1.000000
7.	Sec. 4: N/2 SE/4	80.00	E-5231-8 Effective 5-10-51 HBP	State of New Mexico 12.5% Royalty	All	Bass Enterprises Production Co.	100.00000000%	None		Falcon Creek Resources, Inc.	100.000000
8.	Sec. 16: NW/4 SE/4	40.00	V-5241-1 Effective 2-1-98 Expires 2-1-03	State of New Mexico 16.666667% Royalty	All	Santa Fe Energy Resources, Inc.	100.00000000%	None		Santa Fe-Snyder Corporation	100.000000

7 STATE TRACTS TOTALING 520.00 ACRES OR 39.39% OF THE UNIT AREA

EXHIBIT "B"

**SCHEDULE OF OWNERSHIP OF OIL AND GAS INTERESTS
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO**

TRACT NO.	DESCRIPTION OF LAND	SERIAL NUMBER	LEASE EXPIRATION DATE	NUMBER OF ACRES	LEASE STATUS	ROYALTY OWNERSHIP		LESSEE OF RECORD	OVERRIDING ROYALTY		WORKING INTEREST	
						BASIC ROYALTY PERCENTAGE	PERCENTAGE		OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE	OWNERSHIP PERCENTAGE

PATENTED LANDS: T20S-R33E-N16E-M

9.	Sec. 4: S/2 SE/4			80.00	HBP	Scharbauer Cattle Company	75%	Mitchell Energy Corporation	50.000000%	RIMCO Royalty Partners	0.1583%	Mitchell Energy Corporation	50.0000%
						20% royalty		Santa Fe-Snyder Corporation	33.333333%	Matt S. Muratta	0.0083%	Santa Fe-Snyder Corporation	33.3333%
						Giles M. Lee	5%	Camterra Resources Partners, L.P.	16.666667%			Camterra Resources Partners, L.P.	16.6666%
						20% royalty							
						Charles R. Lee	5%						
						20% royalty							
						R. D. Lee, Jr.	5%						
						20% royalty							
						John R. Anderson, Personal Representative for the Estate of Brookie Lee Anderson	5%						
						20% royalty							
						Brookie Lee Green	1.25%						
						20% royalty							
						Elizabeth Forrester Berry	1.25%						
						20% royalty							
						Becky Brooks Christmas	1.25%						
						20% royalty							
						Mary Ann Ham	1.25%						
						20% royalty							

1 PATENTED TRACT TOTALING 80.00 ACRES OR 6.06% OF THE UNIT AREA

18 TRACTS TOTALING 1,320.00 ACRES IN THE UNIT AREA

EXHIBIT "C"

**SCHEDULE OF TRACT PARTICIPATION
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO**

Tract	Description	Lease	Acreage	Tract Participation Factor
1A	Sec. 9 - S/2 SW/4, SW/4 SE/4	Federal NM-51844	120	2.428545%
1B	Sec. 9 - N/2 SW/4, NW/4 SE/4	Federal NM-89889	120	8.450374%
2A	Sec. 9 - S/2 NW/4	Federal NM-89889	80	7.292711%
2B	Sec. 9 - NE/4 NW/4	Federal NM-89889	40	3.118828%
2C	Sec. 9 - NW/4 NE/4	Federal NM-89889	40	3.942059%
2D	Sec. 9 - NE/4 NE/4	Federal NM-89889	40	4.501048%
2E	Sec. 9 - SW/4 NE/4	Federal NM-89889	40	4.238918%
2F	Sec. 9 - SE/4 NE/4	Federal NM-89889	40	3.477735%
2G	Sec. 9 - NE/4 SE/4	Federal NM-89889	40	8.425680%
3	Sec. 9 - SE/4 SE/4	Federal NM-94851	40	2.562643%
4	Sec. 17 - E/2 NE/4, NE/4 SE/4	Federal NM-94852	120	0.302013%
5A	Sec. 16 - NE/4 NE/4, S/2 NE/4, N/2 SW/4	State E-3441-5	200	10.427839%
5B	Sec. 16 - SE/4 NW/4	State E-3441-7	40	4.561368%
5C	Sec. 16 - NW/4 NE/4, SW/4 NW/4	State E-3441-7	80	3.439305%
6A	Sec. 16 - NE/4 NW/4	State V-4021-0	40	3.459833%
6B	Sec. 16 - NW/4 NW/4	State V-4021-0	40	4.128295%
7	Sec. 4 - N/2 SE/4	State E-5231-8	80	4.541027%
8	Sec. 16 - NW/4 SE/4	State V-5241-1	40	1.523122%
9	Sec. 4 - S/2 SE/4	Fee	80	19.178657%
			1,320	100.000000%

EXHIBIT "D-1"

SCHEDULE OF WORKING INTEREST OWNERSHIP - UNIT PARTICIPATION
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NUMBER	1A	1B	2A	2B	2C	2D	2E	2F	2G	3
TRACT PARTICIPATION	2.428545%	8.450374%	7.292711%	3.118828%	3.942059%	4.501048%	4.238918%	3.477735%	8.425680%	2.562643%
Camterra Resources Partners, L.P.										
Charles McNeese				0.078841%						
Falcon Creek Resources, Inc.	2.428545%	8.450374%	7.292711%	2.935331%	3.729420%	4.253490%	3.743652%	3.277766%	8.172910%	2.485764%
Kenneth English							0.423892%			
Mitchell Energy Corporation										
PATCO, Ltd.				0.077971%		0.112526%		0.086943%		
Santa Fe-Snyder Corporation										
Sheehy & Richardson				0.031188%	0.045969%	0.045010%	0.042389%	0.043472%	0.084257%	0.025626%
Sid Cowan				0.074338%	0.087829%	0.090021%	0.028985%	0.069555%	0.168514%	0.051253%
TOTALS	2.428545%	8.450374%	7.292711%	3.118828%	3.942059%	4.501048%	4.238918%	3.477735%	8.425680%	2.562643%

TRACT NUMBER	4	5A	5B	5C	6A	6B	7	8	9	WI TOTAL
TRACT PARTICIPATION	0.302013%	10.427839%	4.561368%	3.439305%	3.459833%	4.128295%	4.541027%	1.523122%	19.178657%	
Camterra Resources Partners, L.P.										
Charles McNeese									3.196443%	3.196443%
Falcon Creek Resources, Inc.	0.302013%	10.115003%	4.561368%	3.439305%	3.353409%	4.000706%	4.541027%			0.078841%
Kenneth English										
Mitchell Energy Corporation									9.589328%	9.589328%
PATCO, Ltd.										0.277440%
Santa Fe-Snyder Corporation								1.523122%	6.392886%	7.916007%
Sheehy & Richardson		0.104278%			0.034598%	0.041283%				0.498072%
Sid Cowan		0.208557%			0.071825%	0.086306%				0.937182%
TOTALS	0.302013%	10.427839%	4.561368%	3.439305%	3.459833%	4.128295%	4.541027%	1.523122%	19.178657%	100.000000%

EXHIBIT "D-2"

SCHEDULE OF WORKING INTEREST OWNERSHIP - UNIT IMPLEMENTATION PARTICIPATION
WEST TEAS (YATES - SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NUMBER	1A	1B	2A	2B	2C	2D	2E	2F	2G	3
TRACT PARTICIPATION	3.391941%	11.105802%	7.523343%	3.110512%	4.373964%	4.718496%	4.308389%	3.769794%	4.650710%	2.987608%
Camterra Resources Partners, L.P.										
Charles McNeese					0.087479%					
Falcon Creek Resources, Inc.	3.391941%	11.105802%	7.523343%	2.927504%	4.138026%	4.458978%	3.805006%	3.553030%	4.511189%	2.897979%
Kenneth English							0.430839%			
Mitchell Energy Corporation										
PATCO, Ltd.				0.077763%		0.117962%		0.094245%		
Santa Fe-Snyder Corporation										
Sheehy & Richardson				0.031105%	0.051006%	0.047185%	0.043084%	0.047122%	0.046507%	0.029876%
Sid Cowan				0.074140%	0.097452%	0.094370%	0.029460%	0.075396%	0.093014%	0.059752%
TOTALS	3.391941%	11.105802%	7.523343%	3.110512%	4.373964%	4.718496%	4.308389%	3.769794%	4.650710%	2.987608%

TRACT NUMBER	4	5A	5B	5C	6A	6B	7	8	9	WI TOTAL
TRACT PARTICIPATION	0.421821%	14.338717%	5.511933%	4.803666%	4.396391%	3.466572%	3.728586%	2.127339%	11.264417%	
Camterra Resources Partners, L.P.										
Charles McNeese									1.877403%	1.877403%
Falcon Creek Resources, Inc.	0.421821%	13.908556%	5.511933%	4.803666%	4.261160%	3.359434%	3.728586%			0.087479%
Kenneth English										84.307955%
Mitchell Energy Corporation									5.632208%	0.430839%
PATCO, Ltd.										5.632208%
Santa Fe-Snyder Corporation								2.127339%	3.754806%	0.289970%
Sheehy & Richardson		0.143387%			0.043964%	0.034666%				5.882145%
Sid Cowan		0.286774%			0.091268%	0.072472%				0.517902%
TOTALS	0.421821%	14.338717%	5.511933%	4.803666%	4.396391%	3.466572%	3.728586%	2.127339%	11.264417%	100.000000%

EXHIBIT "D-3"

**SCHEDULE OF IMPLEMENTATION TRACT PARTICIPATION
WEST TEAS (YATES-SEVEN RIVERS) UNIT AREA
LEA COUNTY, NEW MEXICO**

Tract	Description	Lease	Acreage	Implementation Tract Participation Factor
1A	Sec. 9 - S/2 SW/4, SW/4 SE/4	Federal NM-51844	120	3.391941%
1B	Sec. 9 - N/2 SW/4, NW/4 SE/4	Federal NM-89889	120	11.105802%
2A	Sec. 9 - S/2 NW/4	Federal NM-89889	80	7.523343%
2B	Sec. 9 - NE/4 NW/4	Federal NM-89889	40	3.110512%
2C	Sec. 9 - NW/4 NE/4	Federal NM-89889	40	4.373964%
2D	Sec. 9 - NE/4 NE/4	Federal NM-89889	40	4.718496%
2E	Sec. 9 - SW/4 NE/4	Federal NM-89889	40	4.308389%
2F	Sec. 9 - SE/4 NE/4	Federal NM-89889	40	3.769794%
2G	Sec. 9 - NE/4 SE/4	Federal NM-89889	40	4.650710%
3	Sec. 9 - SE/4 SE/4	Federal NM-94851	40	2.987608%
4	Sec. 17 - E/2 NE/4, NE/4 SE/4	Federal NM-94852	120	0.421821%
5A	Sec. 16 - NE/4 NE/4, S/2 NE/4, N/2 SW/4	State E-3441-5	200	14.338717%
5B	Sec. 16 - SE/4 NW/4	State E-3441-7	40	5.511933%
5C	Sec. 16 - NW/4 NE/4, SW/4 NW/4	State E-3441-7	80	4.803666%
6A	Sec. 16 - NE/4 NW/4	State V-4021-0	40	4.396391%
6B	Sec. 16 - NW/4 NW/4	State V-4021-0	40	3.466572%
7	Sec. 4 - N/2 SE/4	State E-5231-8	80	3.728586%
8	Sec. 16 - NW/4 SE/4	State V-5241-1	40	2.127339%
9	Sec. 4 - S/2 SE/4	Fee	80	11.264417%
			1,320	100.000000%

EXHIBIT " E "

1 Attached to and made a part of ___that certain Unit Operating Agreement for the West Teas (Yates-Seven Rivers)
2 Unit Area by and between Falcon Creek Resources, Inc., as Unit Operator, and the other signatory parties thereto,
3 as Working Interest Owners.____
4
5
6
7
8
9

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

- 10
11
12
13
14
15
16
17 1. **Definitions** (The added terms below in quotes, are defined in the Unit Agreement and the Unit Operating Agreement and shall have the same
18 meaning and effect in this Exhibit "E")

19 "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure
20 is attached, **said agreement being the Unit Operating Agreement.**

21 "Joint Operations" shall mean ~~all operations necessary or proper for the development, operation, protection and~~
22 ~~maintenance of the Joint Property.~~ **the same as "Unit Operations".**

23 "Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint
24 Operations and which are to be shared by the Parties, **as set out in Article 11 and elsewhere in the Unit Operating Agreement.**

25 "Operator" shall mean the party designated to conduct the Joint Operations **and mean the same as "Unit Operator".**

26 "Non-Operators" shall mean the Parties to this agreement other than the Operator **and mean the same as "Working Interest Owner".**

27 "Parties" shall mean Operator and Non-Operators.

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

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

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

35 "Material" shall mean ~~personal property, equipment or supplies~~ **the same as "Unit Equipment"** acquired or held for use on the Joint Property.

36 "Controllable Material" shall mean Material, which at the time is so classified in the Material Classification Manual as
37 most recently recommended by the Council or Petroleum Accountants Societies.
38

39 2. **Statement and Billings**

40
41 Operator shall bill Non-Operators on or before the last day of each month, for their proportionate share of the Joint
42 Account for the preceding month. Such bills will be accompanied by statements, which identify the authority for
43 expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and
44 expense except that items of Controllable Material and unusual charges and credits shall be separately identified and
45 fully described in detail.
46

47 3. **Advances and Payments by Non-Operators**

48
49 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their
50 share of estimated cash outlay for the succeeding month's operation within ~~fifteenthirty~~ **(+530)** days after receipt of the
51 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust
52 each monthly billing to reflect advances received from the Non-Operators.
53

54 B. Each Non-Operator shall pay its proportion of all bills within ~~fifteenthirty~~ **(+530)** days after receipt. If payment is not made
55 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at **BankBoston, N.A.**

56 on the first day of the month in which delinquency occurs plus 10% or the
57 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,
58 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid
59 amounts.
60

61 4. **Adjustments**

62
63 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof,
64 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall
65 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar
66 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes
67 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same
68 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of
69 Controllable Material as provided for in Section V.
70

1 **5. Audits**

2
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
12 at the expense of those Non-Operators approving such audit.

13
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.
15

16 **6. Approval By Non-Operators**

17
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.
22

23
24 **II. DIRECT CHARGES**

25
26 Operator shall charge the Joint Account with the following items:

27
28 **1. Ecological and Environmental**

29
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.
33

34 **2. Rentals and Royalties**

35
36 Lease rentals and royalties paid by Operator for the Joint Operations.
37

38 **3. Labor**

39
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of
41 Joint Operations.

42
43 (2) Salaries of First level Supervisors in the field.
44

45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are
46 excluded from the overhead rates.
47

48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly
49 employed in the operation or the Joint Property if such charges are excluded from the overhead rates.
50

51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.
56

57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
59

60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
61 Paragraphs 3A and 3B of this Section II.
62

63 **4. Employee Benefits**

64
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
68 most recently recommended by the Council of Petroleum Accountants Societies.
69
70

1 5. **Material**

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be
6 avoided.

7
8 6. **Transportation**

9
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

11
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25
26 7. **Services**

27
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on or for the benefit of the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on or for the benefit of the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

33
34 8. **Equipment and Facilities Furnished By Operator**

35
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed twelve percent (12%) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41
42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45
46 9. **Damages and Losses to Joint Property**

47
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator.

52
53 10. **Legal Expense**

54
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section
60 I, Paragraph 3.

61
62 11. **Taxes**

63
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest and Article 11.1 of the Unit Operating Agreement.

69
70

1 12. Insurance

2
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.
7

8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.
12

13 14. Communications

14
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.
18

19 15. Other Expenditures

20
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint
23 Operations.
24

25
26 III. OVERHEAD
27

28 1. Overhead - Drilling and Producing Operations

29
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge
31 drilling and producing operations on a ~~either~~

32
33 (X) Fixed Rate Basis, Paragraph 1A, ~~or~~

34 (~~—~~) Percentage Basis, Paragraph 1B
35

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.
42

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

45
46 (~~—~~) shall be covered by the overhead rates, ~~or~~

47 (X) shall not be covered by the overhead rates.
48

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

52
53 (~~—~~) shall be covered by the overhead rates, ~~or~~

54 (X) shall not be covered by the overhead rates.
55

56 A. Overhead - Fixed Rate Basis

57
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59
60 Drilling Well Rate \$ 3,620.00

61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 362.00
64

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

66
67 (a) Drilling Well Rate

68
69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

1 is later, except that no charge shall be made during suspension of drilling or completion operations
2 for fifteen (15) or more consecutive calendar days.

- 3
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be
6 applied for the period from date workover operations, with rig or other units used in workover,
7 commence through date of rig or other unit release, except that no charge shall be made during
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9
10 (b) Producing Well Rates

- 11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as
13 a one-well charge for the entire month.
14
15 (2) Each active completion in a multi-completed well in which production is not commingled down
16 hole shall be considered as a one-well charge providing each completion is considered a separate
17 well by the governing regulatory authority.
18
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the
20 production shall be considered as a one-well charge providing the gas well is directly connected to
21 a permanent sales outlet.
22
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations
24 are completed on any well. This one-well charge shall be made whether or not the well has
25 produced except when drilling well rate applies.
26
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- 29
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or
37 minus the computed adjustment.
38

39 ~~B. Overhead - Percentage Basis~~

- 40
41 ~~(1) Operator shall charge the Joint Account at the following rates:~~

42
43 ~~(a) Development~~

44
45 ~~_____ Percent (____%) of the cost of development of the Joint Property exclusive of costs~~
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47
48 ~~(b) Operating~~

49
50 ~~_____ Percent (____%) of the cost of operating the Joint Property exclusive of costs provided~~
51 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased~~
52 ~~for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the~~
53 ~~mineral interest in and to the Joint Property.~~

- 54
55 ~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

56
57 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,~~
58 ~~development shall include all costs in connection with drilling, redrilling, deepening, or any remedial~~
59 ~~operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing~~
60 ~~interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and~~
61 ~~expenditures incurred in abandoning when the well is not completed as a producer, and original cost of~~
62 ~~construction or installation of fixed assets, the expansion of fixed assets and any other project clearly~~
63 ~~discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other~~
64 ~~costs shall be considered as operating.~~

65
66 2. Overhead - Major Construction

67
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ 50,000.00

- 2
3 A. 5 % of first \$100,000 or total cost if less, plus
4
5 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
6
7 C. 2 % of costs in excess of \$1,000,000.
8

9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be
11 excluded.
12

13 **3. Catastrophe Overhead**

14 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due
15 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are
16 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the
17 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account
18 for overhead based on the following rates:
19

- 20
21 A. 5 % of total costs through \$100,000; plus
22
23 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
24
25 C. 2 % of total costs in excess of \$1,000,000.
26

27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead
28 provisions of this Section III shall apply.
29

30 **4. Amendment of Rates**

31 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement
32 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.
33
34
35

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

37 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material
38 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at
39 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or
40 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to
41 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition
42 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.
43
44

45 **1. Purchases**

46 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of
47 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account
48 when adjustment has been received by the Operator.
49

50
51 **2. Transfers and Dispositions**

52 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,
53 unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:
54
55

56 A. New Material (Condition A)

57
58 (1) Tubular Goods ~~Other than Line Pipe~~

59
60 (a) Tubular goods, ~~sized 2 3/8 inches OD and larger, except line pipe,~~ shall be priced at Eastern mill
61 ~~published carload base prices effective as of date of movement plus transportation cost using the 80,000~~
62 ~~pound carload weight basis to the railway receiving point nearest the Joint Property for which~~
63 ~~published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound~~
64 ~~or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio~~
65 ~~and casing from Youngstown, Ohio; the actual amount paid by the Operator for the tubular goods, including delivery and~~
66 ~~other applicable charges, from the nearest reliable supply store where such material is normally available.~~

67
68 (b) ~~For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus~~
69 ~~transportation cost from that mill to the railway receiving point nearest the Joint Property as provided~~
70 ~~above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000~~

1 ~~30,000 pound Oil Field Haulers Association interstate truck rate shall be used.~~

2
3 ~~(c) Special end finish tubular goods shall be priced at the lowest published out of stock price, f.o.b. Houston,~~
4 ~~Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,~~
5 ~~to the railway receiving point nearest the Joint Property.~~

6
7 ~~(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out of stock price~~
8 ~~f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate~~
9 ~~per weight of tubing transferred, to the railway receiving point nearest the Joint Property.~~

10
11 (2) ~~Line Pipe~~

12
13 ~~(a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or~~
14 ~~more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.~~
15 ~~Freight charges shall be calculated from Lorain, Ohio.~~

16
17 ~~(b) Line Pipe movements (except size 24 inch OD) and larger with walls 1/4 inch and over) less than 30,000~~
18 ~~pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,~~
19 ~~plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular~~
20 ~~goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,~~
21 ~~Ohio.~~

22
23 ~~(c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of~~
24 ~~manufacture at current new published prices plus transportation cost to the railway receiving point~~
25 ~~nearest the Joint Property.~~

26
27 ~~(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall~~
28 ~~be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at~~
29 ~~prices agreed to by the Parties.~~

30
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the
33 railway receiving point nearest the Joint Property.

34
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39
40 B. Good Used Material (Condition B)

41
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43
44 (1) Material moved to the Joint Property

45
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47
48 (2) Material used on and moved from the Joint Property

49
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was
51 originally charged to the Joint Account as new Material or

52
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was
54 originally charged to the Joint Account as used Material

55
56 (3) Material not used on and moved from the Joint Property

57
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59
60 The cost of reconditioning, if any, shall not be absorbed by the transferring property and shall be charged to the Joint Account.

61
62 C. Other Used Material

63
64 (1) Condition C

65
66 Material which is not in sound and serviceable condition and not suitable for its original function until
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
69 C value plus cost of reconditioning does not exceed Condition B value.

1 (2) Condition D
2

3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material
5 under procedures normally used by Operator without prior approval of Non-Operators.
6

7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be
9 priced at used line pipe prices.
10

11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.
13 Upset tubular goods shall be priced on a non upset basis.
14

15 (3) Condition E
16

17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under
18 procedures normally utilized by Operator without prior approval of Non-Operators.
19

20 D. Obsolete Material
21

22 Material which is serviceable and usable for its original function but condition and/or value of such Material
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by
24 the Parties. Such price should result in the Joint Account being charged with the value of the service
25 rendered by such Material.
26

27 E. Pricing Conditions
28

29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of ~~twenty-five~~ ~~forty-four~~ cents (25 44¢)
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year
35 by the Council of Petroleum Accountants Societies.
36

37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down
38 price of new Material.
39

40 3. Premium Prices
41

42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use
48 and acceptable to Operator.
49

50 4. Warranty of Material Furnished By Operator
51

52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint
53 Account until adjustment has been received by Operator from the manufacturers or their agents.
54

55 V. INVENTORIES
56

57 The Operator shall maintain detailed records of Controllable Material.
58

59 1. Periodic Inventories, Notice and Representation
60

61 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice
62 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that
63 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an
64 inventory shall bind Non-Operators to accept the inventory taken by Operator.
65
66

67 2. Reconciliation and Adjustment of Inventories
68

69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.
2

3 **3. Special Inventories**
4

5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases
8 involving a change of Operator, all Parties shall be governed by such inventory.
9

10 **4. Expense of Conducting Inventories**
11

12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties.
14

15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.
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EXHIBIT "F"

To that certain Unit Operating Agreement for the West Teas (Yates-Seven Rivers) Unit Area by and between Falcon Creek Resources, Inc., as Unit Operator, and the other signatory parties thereto, as Working Interest Owners.

1. Unit Operator shall procure and maintain, at all times while conducting operations under this Agreement, the following Insurance coverages with limits not less than those specified below:
 - A. Worker's Compensation Statutory
 - (a) Employer's Liability \$1,000,000 each accident
 - B. Comprehensive General Liability, including: \$1,000,000
Combined single limit
 - (a) Products Liability, Completed Operation coverage; and,
 - (b) Bodily Injury and Property Damage Liability including, but not limited to, losses resulting from explosion, collapse, underground damage; and
 - (c) Contractual Liability assumed under this Agreement.
 - C. Comprehensive Automobile Liability \$1,000,000
covering owned, non-owned and hired
vehicles Combined single limit
2. The insurance described in 1. above, shall be carried at the joint expense of the parties hereto, and all premiums and other costs and expenses related thereto shall be charged to the Joint Account in accordance with the Accounting Procedure attached as Exhibit "E" to this Agreement
3. Unit Operator shall use every reasonable effort to have its contractors and subcontractors comply with applicable Worker's Compensation laws, rules and regulations and carry such Insurance as Unit Operator may deem necessary.
4. Unit Operator shall not be liable to the Working Interest Owners for loss suffered because of insufficiency of the Insurance procured and maintained for the Joint Account, nor shall Unit Operator be liable to the Working Interest Owners for any loss occurring by reason of Unit Operator's inability to procure or maintain the Insurance provided for herein. If, at any time during the term of this Agreement, Unit Operator is unable to procure or maintain said Insurance, Unit Operator shall notify the Working Interest Owners in writing.
5. In the event of loss not covered by the Insurance provided for herein, such loss shall be charged to the Joint Account and borne by the parties in accordance with their respective percentage of participation as determined by this Agreement.
6. Any party hereto may individually, and at its own expense, procure such additional insurance

EXHIBIT "G"

To that certain
Unit Operating Agreement for the West Teas (Yates-Seven Rivers) Unit Area
by and between Falcon Creek Resources, Inc., as Unit Operator,
and the other signatory parties thereto, as Working Interest Owners.

INVENTORY AND PRICING PROCEDURE

1. INVENTORY EXPENSE. The cost of the physical inventory will be charged to the joint account. The witness, if any, of the Working Interest Owners of the inventory on its own tract will bear its own costs, expenses and any risks inherent with oil field operations and equipment, while witnessing the inventory.

2. PHYSICAL INVENTORY. All equipment, including that classified as loose and idle, will be inventoried. All material and equipment located within the Unit Area at the time of the inventory shall become Unit Equipment. Any item of material and equipment in obvious, poor condition shall be noted on the inventory by inventory crews. Credit will be given to the respective Working Interest Owners and priced according to the provisions of Exhibit "E", Section IV (Pricing of Joint Account Materials, Purchases, Transfers and Dispositions).

It is recognized and agreed that certain inventoried material and equipment now in use may become surplus due to consolidation under unit operation. All excess equipment will be sold on an as is, where is basis to the highest bidder. A minimum of three bids shall be solicited. Unit Operator will notify Working Interest Owners in writing of such surplus material or equipment declared surplus and the bids therefor, and allow any Working Interest Owner to purchase such surplus material or equipment based on the highest bid.

For purposes of inventory only, all controllable material and equipment inventoried and retained for Unit Operations, with the exception of loose, idle and scrap items in obvious, poor condition and all material and equipment of less than Condition "B" value, will be priced according to the provisions of Exhibit "E", Section IV.

Each Working Interest Owner's record of casing head and valves will be accepted for the inventory. Prior to or on date of inventory, each Working Interest Owner will furnish Unit Operator, from its records of unitized wells, the following:

Casing - sized, weight and grade, if known, and depth set.

Tubing - size, grade, weight and footage.

Tubing Anchors and Packers - manufacturer, type and size.

Sucker Rods - size and footage or number.

Downhole Pumps or other Flow Equipment.

Casing Heads - make size, series, test, type of valves of controllable nature.

The inventory shall be conducted in accordance with Article 10 of the Unit Operating Agreement and shall be limited to those items of equipment normally considered controllable by operators of oil and gas properties and indicated in Material Classification Manual prepared by the Council of Petroleum Accountants' Society of North America, in general use at the time of such inventory.

Equipment values will be determined by Unit Operator after each Working Interest Owner submits inventory and places a condition rating on his equipment. If the evaluation is not accepted, an independent equipment broker will be contracted to do an appraisal of the equipment and/or site in question. The evaluation of the contracted broker will be binding. If cleanup is necessary on any tracts it will be charged back against equipment inventory in that tract.

EXHIBIT "H"

To that certain
Unit Operating Agreement for the West Teas (Yates-Seven Rivers) Unit Area
by and between Falcon Creek Resources, Inc., as Unit Operator,
and the other signatory parties thereto, as Working Interest Owners.

EQUAL EMPLOYMENT OPPORTUNITY

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

(1) The Unit Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin, or sex. The Unit Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin, or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. The Unit Operator 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 Unit Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Unit Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, or sex.

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

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

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

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

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

Unit Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission, and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

Unit Operator further acknowledges that it is preparing a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and will supply Working Interest Owners with a copy of such program if they so request.

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

(1) Unit Operator assures Working Interest Owners that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin because of habit, local custom, or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

(2) Unit Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Working Interest Owners.

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

III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

IV. VETERAN'S PREFERENCE

Unit Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000.00 or more or which will generate 400 or more man days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT"

(1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from

within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

(2) The contractor agrees to place the above provision in any subcontract directly under this contract.

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

(1) No facility is to be utilized by Subcontractor in the performance of this contract with Unit Operator which is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR Sec. 15.20.

(2) Prompt written notification shall be given by Subcontractor to Unit Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.

(3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. Sec. 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.

(4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR Sec. 15.4 & 5.