

**UNIT OPERATING AGREEMENT  
WEST BLINEBRY - DRINKARD UNIT  
LEA COUNTY, NEW MEXICO**

EXHIBIT

C

**UNIT OPERATING AGREEMENT  
WEST BLINEBRY - DRINKARD UNIT  
LEA COUNTY, NEW MEXICO**

**Table of Contents**

|                                                                  |   |
|------------------------------------------------------------------|---|
| <b><u>ARTICLE 1- CONFIRMATION OF UNIT AGREEMENT</u></b> .....    | 1 |
| <u>Section 1.1</u> Unit Agreement .....                          | 1 |
| <b><u>ARTICLE 2- EXHIBITS</u></b> .....                          | 1 |
| <u>Section 2.1</u> Exhibits.....                                 | 1 |
| 2.1.1 Exhibits A, B-1, B-2 and B-3 .....                         | 2 |
| 2.1.2 Exhibit C.....                                             | 2 |
| 2.1.3 Exhibit D .....                                            | 2 |
| 2.1.4 Exhibit E.....                                             | 2 |
| 2.1.5 Exhibit F .....                                            | 2 |
| 2.1.6 Exhibit G .....                                            | 2 |
| 2.1.7 Exhibit H .....                                            | 2 |
| 2.1.8 Exhibit I.....                                             | 2 |
| <u>Section 2.2</u> Revision of Exhibits .....                    | 2 |
| <u>Section 2.3</u> Reference to Exhibits .....                   | 2 |
| <b><u>ARTICLE 3- SUPERVISION OF OPERATIONS</u></b> .....         |   |
| <b><u>BY WORKING INTEREST OWNERS</u></b> .....                   | 3 |
| <u>Section 3.1</u> Overall Supervision .....                     | 3 |
| <u>Section 3.2</u> Specific Authority and Duties .....           | 3 |
| 3.2.1 Method of Operation .....                                  | 3 |
| 3.2.2 Drilling of Wells.....                                     | 3 |
| 3.2.3 Well Abandonment, Use, and Conversion .....                | 3 |
| 3.2.4 Expenditures.....                                          | 3 |
| 3.2.5 Disposition of Unit Equipment.....                         | 4 |
| 3.2.6 Appearance Before a Court of Regulatory Agency.....        | 4 |
| 3.2.7 Unit Operations Tools and Equipment.....                   | 4 |
| 3.2.8 Audits .....                                               | 4 |
| 3.2.9 Inventories .....                                          | 4 |
| 3.2.10 Technical Services.....                                   | 5 |
| 3.2.11 Assignment to Committees .....                            | 5 |
| 3.2.12 Removal of Operator .....                                 | 5 |
| 3.2.13 Changes and Amendments .....                              | 5 |
| 3.2.14 Investment Adjustments .....                              | 5 |
| 3.2.15 The Termination of Unit Agreement.....                    | 5 |
| 3.2.16 Cooperative Agreement.....                                | 5 |
| <b><u>ARTICLE 4 - MANNER OF EXERCISING SUPERVISION</u></b> ..... | 5 |
| <u>Section 4.1</u> Designation of Representative.....            | 5 |
| <u>Section 4.2</u> Meetings .....                                | 5 |
| <u>Section 4.3</u> Voting Procedure.....                         | 6 |

|                                                                         |           |
|-------------------------------------------------------------------------|-----------|
| 4.3.1 Voting Interest.....                                              | 6         |
| 4.3.2 Vote Required.....                                                | 6         |
| 4.3.3 Vote at Meeting by Non-attending Working Interest Owner.....      | 6         |
| 4.3.4 Poll Votes .....                                                  | 7         |
| 4.3.5 Approved Action Binding Upon All Parties .....                    | 7         |
| <b>ARTICLE 5 - INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS.....</b>    | <b>7</b>  |
| <u>Section 5.1</u> Reservation of Rights .....                          | 7         |
| <u>Section 5.2</u> Specific Rights .....                                | 7         |
| 5.2.1 Access to Unit Area.....                                          | 7         |
| 5.2.2 Reports.....                                                      | 7         |
| 5.2.3 CO2 .....                                                         | 8         |
| 5.2.4 Audits .....                                                      | 8         |
| <b>ARTICLE 6 - UNIT OPERATOR.....</b>                                   | <b>8</b>  |
| <u>Section 6.1</u> Initial Unit Operator .....                          | 8         |
| <u>Section 6.2</u> Resignation or Removal .....                         | 8         |
| <u>Section 6.3</u> Selection of Successor.....                          | 9         |
| <b>ARTICLE 7 - AUTHORITY AND DUTIES OF UNIT OPERATOR .....</b>          | <b>10</b> |
| <u>Section 7.1</u> Exclusive Right to Operate Unit .....                | 10        |
| <u>Section 7.2</u> Workmanlike Conduct .....                            | 10        |
| <u>Section 7.3</u> Liens and Encumbrances.....                          | 10        |
| <u>Section 7.4</u> Employees .....                                      | 10        |
| <u>Section 7.5</u> Records .....                                        | 10        |
| <u>Section 7.6</u> Reports to Working Interest Owners.....              | 10        |
| <u>Section 7.7</u> Reports to Governmental Authorities.....             | 10        |
| <u>Section 7.8</u> Engineering and Geological Information .....         | 10        |
| <u>Section 7.9</u> Expenditures.....                                    | 11        |
| <u>Section 7.10</u> Wells Drilled by Unit Operator .....                | 11        |
| <u>Section 7.11</u> Cooperative Agreements .....                        | 11        |
| <b>ARTICLE 8 - TAXES.....</b>                                           | <b>11</b> |
| <u>Section 8.1</u> Ad Valorem Taxes.....                                | 11        |
| <u>Section 8.2</u> Other Taxes .....                                    | 12        |
| <b>ARTICLE 9 - INSURANCE.....</b>                                       | <b>12</b> |
| <u>Section 9.1</u> Insurance .....                                      | 12        |
| <b>ARTICLE 10 - ADJUSTMENT OF INVESTMENTS .....</b>                     | <b>12</b> |
| <u>Section 10.1</u> Personal Property Taken Over .....                  | 12        |
| 10.1.1 Wells.....                                                       | 12        |
| 10.1.2 Wells and Lease Equipment.....                                   | 12        |
| 10.1.3 Condition of Wells .....                                         | 12        |
| 10.1.4 Records.....                                                     | 13        |
| 10.1.5 Retention of Liability .....                                     | 13        |
| <u>Section 10.2</u> Inventory and Evaluation of Personal Property.....  | 13        |
| <u>Section 10.3</u> Investment Adjustment.....                          | 14        |
| <u>Section 10.4</u> General Facilities.....                             | 14        |
| <u>Section 10.5</u> Ownership of Personal Property and Facilities ..... | 15        |
| <u>Section 10.6</u> Non-usable and Junk Equipment.....                  | 15        |

|                                                                                  |    |
|----------------------------------------------------------------------------------|----|
| <b><u>ARTICLE 11 - UNIT EXPENSE</u></b> .....                                    | 15 |
| <u>Section 11.1</u> Basis of Charge to Working Interest Owners .....             | 15 |
| <u>Section 11.2</u> Advance Billings .....                                       | 15 |
| <u>Section 11.3</u> Commingling of Funds .....                                   | 16 |
| <u>Section 11.4</u> Unpaid Ordinary Unit Expense .....                           | 16 |
| <u>Section 11.5</u> Lien and Security Rights .....                               | 16 |
| <u>Section 11.6</u> Budgets .....                                                | 17 |
| <u>Section 11.7</u> Carved-out Interest .....                                    | 17 |
| <u>Section 11.8</u> Uncommitted Royalty .....                                    | 18 |
| <b><u>ARTICLE 12 – NONUNITIZED FORMATIONS</u></b> .....                          | 18 |
| <u>Section 12.1</u> Right to Operate .....                                       | 18 |
| <b><u>ARTICLE 13 - TITLES</u></b> .....                                          | 19 |
| <u>Section 13.1</u> Warranty and Indemnity .....                                 | 19 |
| <u>Section 13.2</u> Failure Because of Unit Operations .....                     | 19 |
| <u>Section 13.3</u> Individual Loss .....                                        | 19 |
| <b><u>ARTICLE 14 – LIABILITY, CLAIMS, AND SUITS</u></b> .....                    | 20 |
| <u>Section 14.1</u> Individual Liability .....                                   | 20 |
| <u>Section 14.2</u> Settlements .....                                            | 20 |
| <u>Section 14.3</u> Notice of Loss .....                                         | 20 |
| <u>Section 14.4</u> Force Majeure .....                                          | 20 |
| <b><u>ARTICLE 15 – INTERNAL REVENUE PROVISION</u></b> .....                      | 21 |
| <u>Section 15.1</u> Internal Revenue Provision .....                             | 21 |
| <b><u>ARTICLE 16 - NOTICES</u></b> .....                                         | 22 |
| <u>Section 16.1</u> Notices .....                                                | 22 |
| <u>Section 16.2</u> Notice of Transfer of Title .....                            | 22 |
| <b><u>ARTICLE 17 – WITHDRAWAL OF WORKING INTEREST OWNER</u></b> .....            | 22 |
| <u>Section 17.1</u> Withdrawal .....                                             | 22 |
| <u>Section 17.2</u> Limitation on Withdrawal .....                               | 23 |
| <b><u>ARTICLE 18 – ABANDONMENT OF WELLS</u></b> .....                            | 24 |
| <u>Section 18.1</u> Rights of Former Owners .....                                | 24 |
| <u>Section 18.2</u> Plugging .....                                               | 24 |
| <b><u>ARTICLE 19 – EFFECTIVE DATE AND TERM</u></b> .....                         | 24 |
| <u>Section 19.1</u> Effective Date .....                                         | 24 |
| <u>Section 19.2</u> Term .....                                                   | 24 |
| <b><u>ARTICLE 20 – ABANDONMENT OF OPERATIONS</u></b> .....                       | 25 |
| <u>Section 20.1</u> Termination .....                                            | 25 |
| 20.1.1 Oil and Gas Rights .....                                                  | 25 |
| 20.1.2 Right to Operate .....                                                    | 25 |
| 20.1.3 Salvaging Wells .....                                                     | 25 |
| 20.1.4 Cost of Abandonment .....                                                 | 25 |
| 20.1.5 Distribution of Assets .....                                              | 25 |
| <b><u>ARTICLE 21 - LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE</u></b> ..... | 26 |
| <u>Section 21.1</u> Laws and Regulations .....                                   | 26 |
| <u>Section 21.2</u> Certificate of Compliance .....                              | 26 |
| <b><u>ARTICLE 22 - EXECUTION</u></b> .....                                       | 26 |

|                                                   |                                                 |    |
|---------------------------------------------------|-------------------------------------------------|----|
| <u>Section 22.1</u>                               | Original, Counterpart, or Other Instrument..... | 26 |
| <b><u>ARTICLE 23 - SUCCESSORS AND ASSIGNS</u></b> | .....                                           | 26 |
| <u>Section 23.1</u>                               | Successors and Assigns .....                    | 26 |
| <b><u>ARTICLE 24 - GAS BALANCING</u></b>          | .....                                           | 26 |
| <u>Section 24.1</u>                               | Gas Balancing.....                              | 26 |

UNIT OPERATING AGREEMENT  
WEST BLINEBRY - DRINKARD UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT ("Agreement"), entered into as of the 1st day of December, 2007, 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 or have otherwise, pursuant to the order of the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico (the "Division"), become subject to, as of the date hereof, an agreement entitled "Unit Agreement, West Blinebry - Drinkard Unit, Lea County, New Mexico," herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined;

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

ARTICLE I

CONFIRMATION OF UNIT AGREEMENT

1.1 Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of and incorporated into this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement as if such were fully set forth and defined herein. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern. This Agreement shall supersede all existing agreements (other than the Unit Agreement) by and among the parties hereto covering the Unit Area as to the Unitized Formation to the extent that the provisions of such existing agreements conflict with the provisions of this Agreement.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits A, B-1, B-2 and B-3 of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is a schedule showing the Phase I and Phase II Unit Participations of each Working Interest Owner. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Phase I and Phase II Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error and revised as herein authorized.

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

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

2.1.5 Exhibit F, attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.

2.1.6 Exhibit G, attached hereto, is the form of indemnity agreement provided for in Section 13 of the Unit Agreement.

2.1.7 Exhibit H, attached hereto, is the non-discrimination agreement provided for in Section 21.2 hereof.

2.1.8 Exhibit I, attached hereto, is a list of wells to be committed to Unit Operations and delivered to Unit Operator on the Effective Date for use in such Unit Operations (such wells, together with any wells drilled pursuant to the terms of this Agreement and any other wells hereafter committed to Unit Operations and delivered to Unit Operator, are hereinafter referred to as "Unit Wells").

2.2 Revision of Exhibits. Whenever Exhibits A, B-1, B-2, and B-3 are revised in accordance with the Unit Agreement, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as necessary to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. Working Interest Owners shall be provided a duplicate copy of any exhibit revised as provided herein.

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached, or, if revised, 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 pursuant to and in accordance with the provisions of this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely on its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

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

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

3.2.2. Drilling of Wells. The drilling, deepening, sidetracking, reworking or plugging back of any Unit Well whether for production of Unitized Substances, for use as an injection well with regard to the Unitized Formation, or for other purposes associated with the objectives of this Agreement and the Unit Agreement.

3.2.3 Well Abandonment, Use, and Conversion. The recompletion, abandonment or change of status of any Unit Well; the use of any Unit Well for injection, saltwater disposal, or for any purpose other than production; or the conversion of the use of any Unit Well from one purpose to another. The reactivation of a Unit Well which was shut-in or temporarily abandoned to its former use, by Unit Operator shall not require prior approval of Working Interest Owners if the estimated expenditure is less than the expenditure limitation specified in Section 3.2.4.

3.2.4 Expenditures. The making of any single expenditure in excess of fifty thousand dollars (\$50,000.00); provided, however, that the approval by Working Interest Owners of the drilling, reworking, deepening, sidetracking or plugging back of any Unit Well shall include approval of all necessary expenditures required therefore, and for completing, testing, and equipping the Unit Well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is fifty thousand dollars (\$50,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided, however, that Unit Operator shall act as such representative in the absence of the designation of a different representative by Working Interest Owners. In the event that the Working Interest Owners have designated a representative other than Unit Operator for such purposes, Unit Operator shall be promptly notified of such designation. Such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative to appear and/or act on its own behalf.

3.2.7 Unit Operator's Tools and Equipment: The use by Unit Operator of its own tools and equipment (the charges for which are to be charged to the joint account) in the drilling of a Unit Well or in any other operation in which drilling equipment is required.

3.2.8. Audits. The settlement of unresolved audit exceptions and the auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided, however, that the audit shall not be conducted more than once each year except upon the resignation or removal of Unit Operator, and shall be made upon not less than thirty (30) days written notice to Unit Operator. The costs and expenses of any such audit shall be born by (i) all of the Working Interest Owners (other than the Unit Operator) if the audit has been approved by the Working Interest Owner(s) owning a majority of the Unit Participation, after the Unit Operator's Unit Participation has been excluded; or (ii) by the Working Interest Owners requested such audit, if the Working Interest Owner(s) so requesting such audit hold less than a majority of the Unit Participation, after the Unit Operator's Unit Participation has been excluded.

3.2.9 Inventories. The taking of periodic inventories under the terms of Exhibit D.

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 overhead charges provided by Exhibit D.

3.2.11 Assignment to Committees. The appointment of committees to study any problems or issues related to Unit Operations.

3.2.12 Removal of Operator. The removal of Unit Operator and the selection of a successor pursuant to the terms of the Unit Agreement and Sections 6.2 and 6.3 hereof.

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

3.2.14 Investment Adjustments. The adjustment and readjustment of investments.

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

3.2.16 Cooperative Agreements. The approval of cooperative agreements as provided in Section 7.11 hereof.

#### ARTICLE 4

##### MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by prior written notice to Unit Operator. Likewise, the Unit Operator shall notify each Working Interest Owner of its designated representative and such representative's address for notification. Unit Operator shall notify each Working Interest Owner in writing in the event that it changes its representative and/or such representative's address for notification. Except as otherwise expressly set forth herein, all notices and proposals to be sent to the Working Interest Owners and/or Unit Operator shall be sent to each such party's designated representative at the address for such representative as established under this Section 4.1.

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 Working Interest Owners having a total Phase II Unit Participation

of not less than five percent (5%). No meeting shall be called on less than fourteen (14) days advance written notice, with the proposed agenda for the meeting attached thereto; provided, however, that any such meeting may be requested by Unit Operator or such Working Interest Owners upon forty-eight (48) hours notice when an emergency situation exists, as determined in the reasonable discretion of the party calling such meeting. Working Interest Owners who attend the meeting (whether called pursuant to an emergency or otherwise) may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be the chairman of each meeting.

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

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

4.3.2 Vote Required. Unless otherwise expressly provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters in good faith by the affirmative vote of three (3) or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); provided, however, that should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners likewise vote against the motion or fail to vote. In any instance in which the approval or decision of the Working Interest Owners is required under this Agreement or the Unit Agreement, such approval shall be obtained or such decisions shall be made in accordance with the voting requirements specified in this Section 4.3.2 unless different requirements are otherwise expressly set forth with regard to such approval or decision.

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 on any agenda item by hand-delivering by messenger service or transmitting by facsimile transmission, notice of its vote to Unit Operator's representative prior to the meeting. For the avoidance of doubt, it is the responsibility of each Working Interest Owner who is not represented at a meeting to ensure that the Unit Operator's representative is actually aware of the vote of such Working Interest Owner prior to such meeting. Mere transmission of a communication containing such vote is not sufficient.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, without the necessity of calling a meeting, any matter submitted in writing to 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, each Working Interest Owner shall cast its vote by hand-delivering by messenger service or transmitting by facsimile transmission notice of such vote to the Unit Operator's representative. The vote on any such proposal shall become final at 5:00 p.m. local time (at the address for notices for Unit Operator's representative) on the fourteenth day after the date on which such written proposal was first sent to the Working Interests Owners. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

4.3.5. Approved Action Binding Upon All Parties. Any action, determination or decision which has been approved by the Working Interest Owners, pursuant to this Article 4, shall be binding upon each and every Working Interest Owner, even though any such Working Interest Owner may have voted against the matter or failed to vote.

## ARTICLE 5

### INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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 Working Interest Owners in accordance with this Agreement shall be charged to the Working Interest Owner(s) requesting such information.

5.2.3 CO2. The right to supply in-kind its proportionate share of any CO2 or other injectants used in secondary, tertiary or enhanced recovery operations.

5.2.4. Audits. The right to audit the accounts of Unit Operator pertaining to Unit Operations according to the provisions of Exhibit "D".

## ARTICLE 6

### UNIT OPERATOR

6.1 Initial Unit Operator. Apache Corporation is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. The Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release such Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of its intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the Authorized Officer, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of such six (6) month period.

The Unit Operator shall be subject to removal by the affirmative vote of three (3) or more Working Interest Owners having, in the aggregate, sixty-five percent (65%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon delivery of notice thereof to the Authorized Officer and the Land Commissioner (as defined in the Unit Agreement).

In all such instances of effective resignation or removal of the Unit Operator, until a successor to the outgoing Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager pursuant to the voting requirements of Section 4.3.2 to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in the Unit Area or in the Unitized Substances, but

upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall promptly deliver possession of all well equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such Unit Operator is then elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any Unit Wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

6.3 Selection of Successor. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. The selection of a successor Unit Operator shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the Authorized Officer. If no successor Unit Operator is selected and qualified as herein provided, and if no Unit Manager has been duly appointed as hereinabove provided, the Land Commissioner and the Authorized Officer at its election, may declare this Agreement to be terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having an aggregate total of sixty-five percent (65%) or more of the total Unit Participation then in effect shall prevail; provided that if any one Working Interest Owner has a Unit Participation then in effect of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of two or more other Working Interest Owners having an aggregate total Unit Participation then in effect of at least five percent (5%). For the avoidance of doubt, the Unit Operator who resigns or is removed pursuant to the terms hereof may vote on the successor Unit Operator, except that if the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least sixty-five percent (65%) of the Unit Participation then in effect remaining after excluding the Unit Participation then in effect of Unit Operator so removed.

## ARTICLE 7

### AUTHORITY 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 its discretion, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the liens and security interests 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 by Unit Operator. Such employees shall be the employees of Unit Operator.

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

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

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

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

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

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

7.11 Cooperative Agreements. Unit Operator may, upon approval by Working Interest Owners, enter into cooperative agreements with the operator(s) and/or working interest owner(s) of lands adjacent to the Unit Area for the purpose of coordinating Unit Operations with operations to be conducted by such operators and/or working interest owner(s) on such lands adjacent to the Unit Area.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided, however, that if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for any reduction in taxes paid resulting therefrom. If the ad valorem taxes are based in whole or in part upon separate valuation of the Working Interest of each Working Interest Owner, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Working Interest Owners in accordance with the tax value generated by the Working Interest of each Working Interest Owner. If Unit Operator considers any tax assessment improper, Unit Operator may, at

its discretion, protest within the time and manner prescribed by law, and prosecute to a final determination, unless Working Interest Owners agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest or penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax, together with any interest and penalty accrued, for the joint account.

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

## ARTICLE 9

### INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall provide insurance as set forth in Exhibit E.

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All Unit Wells listed on Exhibit I, together with the casing therein.

10.1.2 Well and Lease Equipment. The tubing in each such Unit Well, the wellhead connections thereon, and all other well, lease and operating equipment that is used in the operation of such Unit Wells, which Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall make such determination as soon as practicable after the Effective Date hereof, and all such property that is determined to be surplus shall be returned as promptly as possible to the Working Interest owners who delivered same to Unit Operator.

10.1.3 Condition of Wells. If any Unit Well listed on Exhibit I, has any zone(s) open below the Unitized Formation, the Working Interest Owner(s) of such Unit Well must abandon the wellbore below the Unitized Formation pursuant to applicable state and federal regulations. If any Unit Well has

any zone(s) open above the Unitized Formation, the Working Interest Owner(s) of such Unit Well must isolate such upper zone from the Unitized Formation in accordance with applicable state and federal regulations. All Unit Wells, including the casing therein, shall be delivered to Unit Operator in reasonably good physical condition capable of being used for Unit Operations. If within one hundred and twenty (120) days after the Effective Date it is determined by the Working Interest Owners that a Unit Well on Exhibit I has not been delivered to Unit Operator (a) in reasonably good physical condition capable of being used for Unit Operations on the Effective Date, and (b) free of any casing failure or leak, whether any such casing failure or leak is determined by Unit Operator to have developed before or after the Effective Date, and (c) with any zone(s) above or below the Unitized Interval that have not been placed in the condition as set out above in this Section 10.1.3, then the Working Interest Owner(s) who contributed such forty (40) acres shall be liable to the other Working Interest Owners for liquidated damages as measured by the cost of repairing one Unit Well (of Unit Operator's choice) on the forty (40) acres, or by the cost of drilling, completing, and equipping a replacement Unit Well on the forty (40) acres.

10.1.4 Records. A copy of all production and well records for such Unit Wells, and any other pertinent information and records requested by Unit Operator.

10.1.5 Retention of Liability. Notwithstanding anything to the contrary in this Agreement, each Working Interest Owner shall retain all liability and shall indemnify all other Working Interest Owners from any claims, demands, causes of action and liabilities relating to any Adverse Environmental Condition (as defined below), which existed prior to the Effective Date on any lands or leases owned by such Working Interest Owner within the Unit boundaries. For purposes of this Agreement, "Adverse Environmental Condition" shall mean any aspect of the leases, lands, plugged or abandoned wells, fixtures or personal property located on the leases or lands which is not in compliance with applicable Environmental Law. "Environmental Law" means all laws, statutes, ordinances, rules, administrative orders and regulations of any governmental authority pertaining to the protection of the environment in effect as of the Effective Date in the jurisdiction in which such leases or lands are located.

10.2 Inventory and Evaluation of Personal Property. As of the Effective Date, or promptly thereafter, Working Interest Owners shall, at Unit Expense, inventory and evaluate the personal property taken over by Unit Operator under Section 10.1.2. The inventory shall include and be limited to those items of equipment

considered controllable as recommended in the then most recent edition of the "Materials Classification Manual" in Bulletin No. 6 dated December 1996, or any amendments thereto, prepared by the Council of Petroleum Accountants Societies; provided, however, that upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. All noncontrollable items of, well, lease and operating equipment used in the operation of the Unit Wells taken over under Section 10.1.1 which Working Interest Owners determine is necessary or desirable for conducting Unit Operations, although excluded from the inventory, shall nevertheless be taken over by Unit Operator. Casing taken over under Section 10.1.1 shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment. Immediately following completion of such inventory, the material and equipment included in the inventory, with the exception of casing, shall be priced in accordance with the provisions of Exhibit "D". The pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing information as may be available and relevant.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined under Section 10.2, of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value, as determined under Section 10.2, of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Phase II 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 negotiated by Unit Operator with the owners thereof, subject to the approval of Working Interest Owners. There shall be no adjustments for lease roads or appurtenances thereto.

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

10.6 Non-usable and Junk Equipment. Non-usable and junk equipment and material will not be taken over by Unit Operator, but such items will remain the property of the Working Interest Owner(s) owning same prior to the Effective Date. Such Working Interest Owner(s) shall be responsible for the disposal of such non-usable and junk equipment and other materials within thirty (30) days of written request by Unit Operator.

## ARTICLE 11

### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expenses for Unit Operations that do not otherwise require Working Interest Owner approval pursuant to Article 3 (hereinafter "Ordinary Unit Expenses"). Each Working Interest Owner shall reimburse Unit Operator for its share of Ordinary Unit Expenses. Each Working Interest Owner's share of Ordinary Unit Expenses shall be allocated in proportion to its respective Phase I or Phase II Unit Participation in effect at the time such ordinary Unit Expense is incurred. All charges, credits, and accounting for, Ordinary Unit Expenses shall be in accordance with Exhibit D.

11.2 Advance Billings. Unit Operator shall have the right, without prejudice to its other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Ordinary Unit Expenses by submitting to each Working Interest Owner, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, together with an invoice for such Working Interest Owner's share thereof. Within thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its respective share of such estimate. Adjustments between estimated and actual Ordinary Unit Expenses shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly. If a Working Interest Owner fails to advance its respective share of estimated Ordinary Unit Expenses as provided in this Section 11.2, such Working Interest Owner's share of any such advanced billings shall be treated as an item of Unpaid Ordinary Unit Expenses pursuant to Section 11.4.

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

11.4 Unpaid Ordinary Unit Expense. If any Working Interest Owner fails or is unable to pay (i) its share of Ordinary Unit Expenses within sixty (60) days after rendition of a statement therefore by Unit Operator, or (ii) its share of advanced billings in accordance with Section 11.2, the unpaid balance shall be paid to Unit Operator by the non-defaulting Working Interest Owners (or by Unit Operator as applicable under Section 11.2) as if it were Ordinary Unit Expense in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the total Unit Participation of all such non-defaulting Working Interest Owners. Such unpaid amount shall bear interest at the Prime rate set by Chase Manhattan Bank of New York for the same period plus one percent (1%) per annum or the maximum contract rate permitted by applicable usury laws, whichever is the lesser. Working Interest Owners (or Unit Operator, as applicable) so paying the same shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the defaulting Working Interest Owners which are primarily chargeable therewith. The amount carried (plus the interest thereon) shall be due and payable out of the proceeds from the defaulting Working Interest Owners share of the sale of Unitized Substances. During the time that any Working Interest Owner fails to pay its share of Ordinary Unit Expenses, the Unit Operator shall be entitled to collect and receive from the purchaser of production, the proceeds from such defaulting Working Interest Owner's share of the sale of Unitized Substances. All credits to any such defaulting Working Interest Owner on account of the sale or disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Ordinary Unit Expenses charged against such defaulting Working Interest Owner until such Working Interest Owner's share of Ordinary Unit Expenses are paid in full, together with any interest accrued thereon.

Notwithstanding the foregoing, Unit Operator shall have the option, but not the obligation, to elect to carry or otherwise finance any defaulting Working Interest Owner(s) in lieu of having all non-defaulting Working Interest Owners participate in the carrying or otherwise financing any defaulting Working Interest Owners(s). Unit Operator upon such election shall be entitled to recovery of the money advanced on behalf of a defaulting Working Interest Owner, plus any additional administrative charges and interest as provided herein.

11.5 Lien and Security Rights. In addition to any other security rights and remedies provided for by the laws of the State of New Mexico with respect to services rendered, or materials and equipment furnished under this Agreement, each Working Interest Owner grants to Unit Operator (i) a first and prior lien upon each Working Interest, including its Oil and Gas Rights in the Unit Area, (ii) a security interest in its share of oil

and/or gas when extracted and all proceeds thereof and (iii) a first and prior lien on its interests in all Unit Equipment to secure payment of its share of Unit Expenses (including initial secondary recovery capital Unit Expense), together with interest thereon at the Prime rate set by Chase Manhattan Bank of New York for the same period plus one percent (1%) per annum or the maximum contract rate permitted by applicable usury laws, whichever is the lesser. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and obtaining of a judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Ordinary Unit Expenses, Unit Operator, on its own behalf and/or on behalf of the Working Interest Owners who have carried such defaulting Working Interest Owner, 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 (including any applicable administrative charge), plus interest, has been paid. This paragraph shall serve as legal notice to any purchaser of oil and/or gas of Unit Operator's right to collect proceeds when accompanied by Unit Operator's written statement concerning the amount of any default, and any such purchaser shall have the right to rely on the Unit Operator's statement thereof. Unit Operator grants to Working Interest Owners (other than Unit Operator) an identical lien and security interest, together with the same remedies as provided to Unit Operator above, to secure payment of Unit Operator's share of Unit Expenses. Unit Operator shall have the right to file financing statements and such other instruments as may be necessary to perfect the liens and security interests granted herein; and the Working Interest Owners agree to cooperate and assist in preparing and/or executing any such instruments.

11.6 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expenses for the remainder of the calendar year, and thereafter shall prepare budgets and mail same to Working Interest Owners on or before the 1<sup>st</sup> day of April of each calendar year subsequent to the Effective Date. Such budget shall consist of estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished as soon as reasonably possible to each Working Interest Owner.

11.7 Carved-Out Interest. If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its

Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Rights". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expenses incurred hereunder, the same as though such carved-out interest was a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in this Agreement or otherwise by law for the purpose of collecting the Unit Expenses chargeable to the carved-out interest.

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of the Working Interest Owners in proportion to their respective Unit Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. If such difference exceeds an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the tract, the excess shall be borne solely by the Working Interest Owners of such Tract proportionately in proportion to their respective Tract Participations as Shown on Exhibit B-2. Adjustments under this Section 11.8 shall be made by charges and credits to the joint account.

## ARTICLE 12

### NONUNITIZED 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 a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising

the right, however, such Working Interest Owner shall exercise care or cause care to be exercised to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator, shall produce Unitized Substances. 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 or enhanced recovery operations in the Unitized Formation will not be affected adversely.

## ARTICLE 13

### TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents that it is the owner of the respective Working Interests set forth opposite its name in Exhibits B-1, B-2 and C, and 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 because of Unit Operations in accordance with Section 14.2; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

13.2 Failure Because of Unit Operations. If, as a direct result of Unit Operations, title to any Working Interest in any Tract fails, including for reasons such as non-production from such Tract, such title failure shall not result in the change of the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

13.3 Individual Loss. Any Working Interest Owner, including Unit Operator in its capacity as a Working Interest Owner, whose title fails, for reasons other than as set forth in Section 14.2, shall alone bear the loss, and hereby expressly agrees to indemnify all other Working Interest Owners against any claim for damages arising from such failure which may be asserted against them. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder, except failure that may be caused by or results from the gross negligence or willful misconduct of Unit Operator.

## ARTICLE 14

### LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Where insurance or self-insurance is not maintained as set forth in Exhibit E for the joint interest, the Unit Operator shall investigate, defend, settle or otherwise handle any injury or damage claim or suit (on the joint account) if the settlement expenditure does not exceed or is reasonably expected not to exceed one hundred thousand dollars (\$100,000.00) and if such payment is in complete settlement of the claim or suit. A settlement expenditure in excess of the above amount may be made only by approval of Working Interest Owners; and each Working Interest Owner shall have the right to participate through its own counsel at its own expense in the settlement, compromise or defense of any such claim or suit. Any expenditure incurred by Unit Operator in defending, compromising, settling or prosecuting any claims or suits, regardless of the settlement amount, shall be charged to the joint account, including charges for litigation services of Unit Operator's legal staff or fees or expenses of outside attorneys; however, no charge for services of Unit Operator's legal staff or fees or expenses of outside attorneys shall be made without prior approval of Working Interest Owners. If a claim is made against any Working Interest Owner in connection with a matter arising from Unit Operations or if any Working Interest Owner is sued in connection with any matter arising from Unit Operations over which such Working Interest Owner has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 Notice of Loss. Unit Operator shall report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage reasonably expected to exceed Fifty Thousand Dollars (\$50,000.00) and likely not covered by insurance carried for the benefit of Working Interest Owners.

14.4 Force Majeure. Any obligation imposed by this Agreement on each person or entity that is party hereto, 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, terrorist act, act of God; by Federal, state or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure material or by any other cause beyond the reasonable control of such person or entity. No person or entity that is party hereto 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 suspension of Unit Operations due to any of the causes set forth in this Section.

## ARTICLE 15

### INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between the parties hereto. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes, this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code (the "Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Title 26, Chapter I, Section 1.761-1(a), et. seq. of the Code of Federal Regulations. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state of New Mexico, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

## ARTICLE 16

### NOTICES

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

16.2 Notice of Transfer of Title. A Working Interest Owner transferring, assigning or conveying all or any part of its interest in and to its Oil and Gas Rights shall notify Unit Operator of such transfer, assignment or conveyance within thirty (30) days of the effective date of such transfer, assignment or conveyance. No change of title shall be binding upon the Unit or Unit Operator until the first day of the calendar month next succeeding the date of receipt by Unit Operator of evidence, satisfactory to Unit Operator, 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 obligations 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 to such interest.

## ARTICLE 17

### WITHDRAWAL OF WORKING INTEREST OWNER

17.1 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 or mineral interests, together with its interest in all Unit Equipment and in all Unit Wells used in or committed to Unit Operations, provided that such transfer shall not relieve such transferring Working Interest Owner (i.e. the "transferor") from any obligation or liability incurred (including but not limited to any estimated cost to remediate an environmental condition which exists on the property prior to such withdrawal) prior to the first day of the month following receipt by Unit Operator of a copy of such executed instrument of transfer. The delivery of the transfer shall be made to Unit Operator for the Working Interest Owners who do not desire to withdraw (i.e., the "transferees"). The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations in effect at the time of the transfer. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its

interest in Unit Equipment, as such shall be calculated as the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning Unit Wells then being used or held for Unit Operations as determined by Working Interest Owners. In the event such withdrawing Working Interest Owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing Working Interest 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 copy of the executed instrument of transfer, Unit Operator shall render a final statement to the withdrawing Working Interest 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 Unit Operator's receipt of the copy of the executed instrument of transfer. Provided all Unit Expenses, including any deficiency amounts described under this Section 17.1, due from the withdrawing Working Interest 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. Except as otherwise provided herein, as of the effective date of transfer hereunder, the withdrawing Working Interest Owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred. Upon the effective date of transfer, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest.

17.2 Limitation on Withdrawal. Notwithstanding anything to the contrary set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if such party's 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 one-eighth (1/8) lessor's royalty, unless one or more of the other Working Interest Owners voluntarily accepts assignment of the Working Interest subject to such burdens. Such Working Interest Owners which voluntarily accept such an assignment, if any, will own the transferred interest in proportion to their respective Phase II Unit Participations. Upon the effective date of transfer, if any, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest.

## ARTICLE 18

### ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any Unit Well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract or which the Unit Well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the Unit Well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well (at which time such well will no longer be considered to be a Unit Well), they shall pay Unit Operator, for credit to the account of all Working Interest Owners, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment in and on the well up to and including the wellhead equipment, except casing therein if contributed by such Working Interest Owners under Section 10.1.1, less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with applicable laws and regulations. Upon taking over any Unit Well in accordance with this Section 18.1, any such Working Interest Owners shall conduct no further operations in the Unitized Formation, except for the plugging and abandonment described herein.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a Unit Well located within the Unit Area that is proposed for abandonment, Unit Operator shall, on behalf of the Working Interest Owners, plug and abandon the well in compliance with applicable laws and regulations.

## ARTICLE 19

### EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit Wells have been plugged and abandoned or turned over to Working Interest

Owners in accordance with Article 20 (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

## ARTICLE 20

### ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. The 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.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment up to and including the wellhead equipment in and on the wells taken over, except casing therein if contributed by such Working Interest Owners under Section 10.1.1., less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

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

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

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

## ARTICLE 21

### LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

21.1 Laws and Regulations. This Agreement and operations hereunder are subject to all valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state and local laws, ordinances, rules, regulations and orders; and any provision of this Agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

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

## ARTICLE 22

### EXECUTION

22.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof; provided, however, that any party executing this Agreement must simultaneously execute the Unit Agreement or a counterpart thereof. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

## ARTICLE 23

### SUCCESSORS AND ASSIGNS

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

## ARTICLE 24

### GAS BALANCING

24.1 Gas Balancing. In the event one (1) or more Working Interest Owners' separate disposition of its share of gas causes deliveries to separate pipelines or deliveries which on a day-to-day basis for any reason are not exactly equal to a Working Interest Owner's respective proportionate share of total gas sales to be allocated

to it, the balancing or accounting between the respective accounts of the Working Interest Owners shall be in accordance with Exhibit F, which shall prevail in the event of a conflict between the Unit Operating Agreement and Exhibit F.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the dates evidenced by their respective certificates of acknowledgment hereof.

**UNIT OPERATOR  
APACHE CORPORATION**

By: John Swain

John Swain  
Attorney-In-Fact  
Central Region

*MS*

Address:

6120 South Yale, #1500  
Tulsa, Oklahoma 74136-4224

**WORKING INTEREST OWNERS**

**BP AMERICA PRODUCTION COMPANY**

---

**CHEVRON U.S.A. INC.**

---

**JOHN P. SEARLS**

---

**LINDA SEARLS NEIDERT**

---

**SIX AECHES COMPANY**

---

**SUSAN SEARLS COLLIER**

---

**CAMPBELL ESTATE PARTNERSHIP  
AUSTEN S. CAMPBELL, GENERAL PARTNER**

---

**OSADO OIL & GAS, LTD.  
A TEXAS LIMITED PARTNERSHIP**

---

**ELLIOTT-HALL COMPANY  
LIMITED PARTNERSHIP**

---

**ELLIOTT INDUSTRIES LIMITED  
PARTNERSHIP**

---

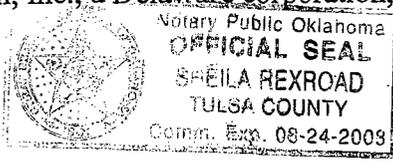
**GEODYNE NOMINEE CORPORATION**

---

STATE OF OKLAHOMA §  
                                          §  
COUNTY OF TULSA §

This instrument was acknowledged before me on 2/13/08 by John Swain, Attorney In Fact for Apache Corporation, Inc., a Delaware corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
\_\_\_\_\_



Sheila Rexroad  
Notary Public in and for said  
County and State

STATE OF §  
                                          §  
COUNTY OF §

This instrument was acknowledged before me on \_\_\_\_\_ by \_\_\_\_\_, as  
\_\_\_\_\_ of BP America Production Company.

My Commission Expires: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF §  
                                          §  
COUNTY OF §

This instrument was acknowledged before me on \_\_\_\_\_ by \_\_\_\_\_, as  
\_\_\_\_\_ of Chevron U.S.A. Inc.

My Commission Expires: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF §  
                                          §  
COUNTY OF §

This instrument was acknowledged before me on \_\_\_\_\_ by John P. Searls.

My Commission Expires: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State



STATE OF

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_ by Campbell Estate Partnership, Austen S. Campbell, General Partner

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_ by Osado Oil & Gas, Ltd, A Texas Limited Partnership

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_ by \_\_\_\_\_, of Elliott Industries Limited Partnership.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_ by \_\_\_\_\_, as  
\_\_\_\_\_ of Elliott -Hall Company, a Limited Partnership, on behalf of said partnership.

My Commission Expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State

STATE OF

§

COUNTY OF

§

§

This instrument was acknowledged before me on \_\_\_\_\_ by \_\_\_\_\_ as  
\_\_\_\_\_ of Geodyne Nominee Corporation, on behalf of said corporation.

My Commission Expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public in and for said  
County and State