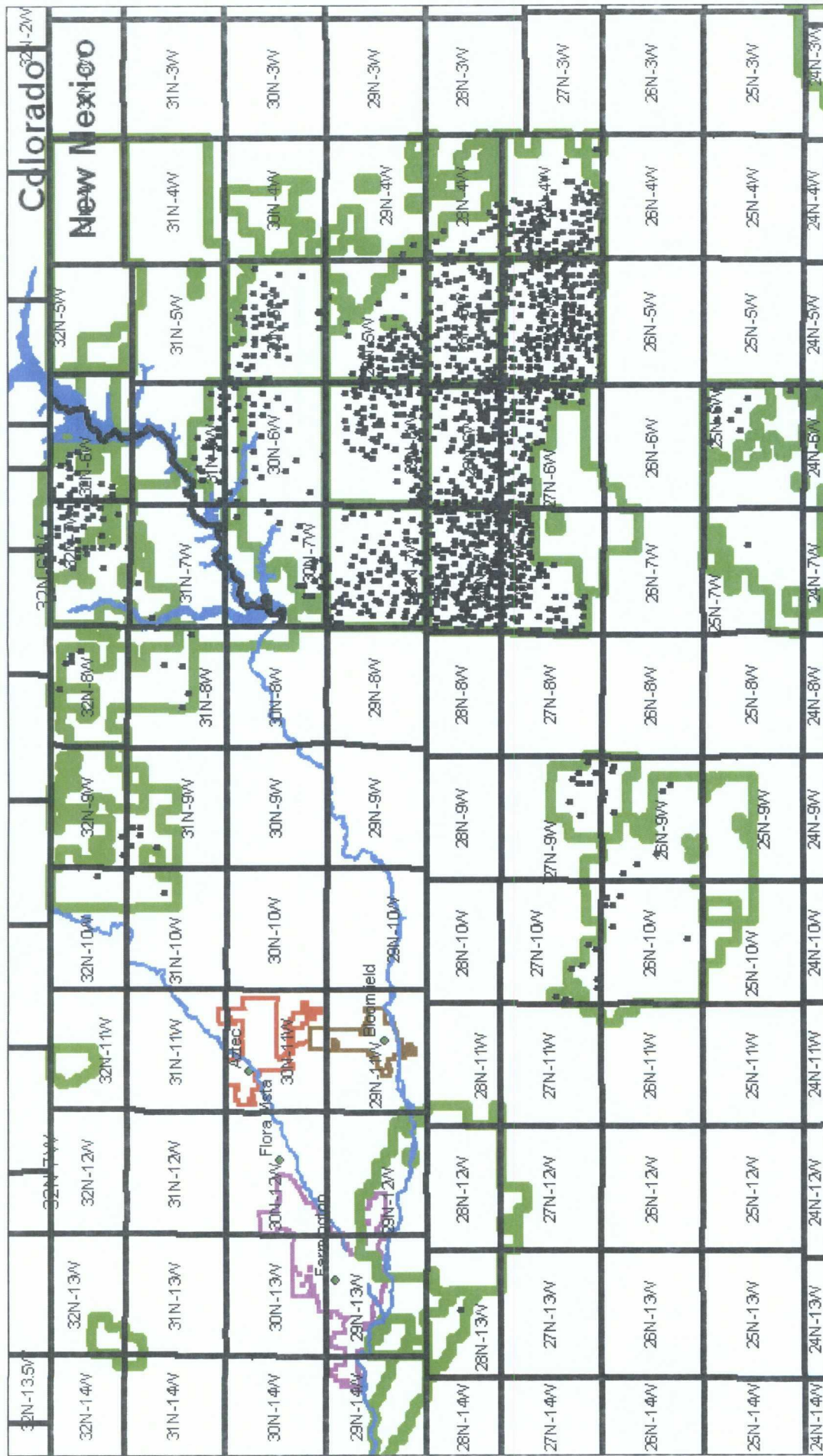


ORIGIN	ORDER NUMBER	ORDER DATE	UNIT NAME	FRUITE AND COAL	PICTURED CLIFFS	CHACRA	MESA VERDE	GALLUP	DAKOTA
h-Br	R-9918	7/6/1993	Allison	NO	NO	NO	YES - PA Only	NO	YES - PA Only
h-Br	R-10786	4/3/1997	Canyon Largo	YES	YES	YES	YES	YES	YES
h-Br	R-12867	1/3/2008	San Juan 27-4	NO	NO	NO	YES	NO	YES
h-Br	R-10694	11/12/1996	San Juan 27-5	YES	YES	NO	YES	NO	YES
h-Br	R-12865	1/3/2008	San Juan 28-4	NO	NO	NO	YES	NO	YES
h-Br	R-10695	11/12/1996	San Juan 28-5	YES	YES	NO	YES	NO	YES
h-Br	R-10696	11/12/1996	San Juan 28-6	YES	YES	NO	YES	NO	YES
h-Br	R-10697	11/8/1996	San Juan 29-7	YES	YES	NO	YES	NO	YES
hBr	R-12866	1/3/2008	San Juan 30-6	NO	NO	NO	YES	NO	YES
h-Br	R-10692	11/1/1996	San Juan 32-9	NO	YES	NO	YES	NO	YES
h-CoP	R-11188	5/25/1999	San Juan 31-6	YES	YES	NO	YES	NO	YES
h-CoP	R-11210	6/21/1999	San Juan 32-7	YES	YES	NO	YES	NO	YES
h-CoP	R-10476-B	10/17/1997	San Juan 28-7	YES	YES	YES	YES	NO	YES
h-CoP	R-10770	2/21/1997	San Juan 29-5	YES	YES	NO	YES	NO	YES
h-CoP	R-11187	4/25/1999	San Juan 29-6	YES	YES	NO	YES	NO	YES
h-CoP	R-11189	5/25/1999	San Juan 32-8	YES	YES	NO	YES	NO	YES

List of past orders - no notices "due"



## Legend

- Commingle\_Wells\_Federal\_Units
- BR Federal Units
- AZTEC
- BLOOMFIELD
- FARMINGTON

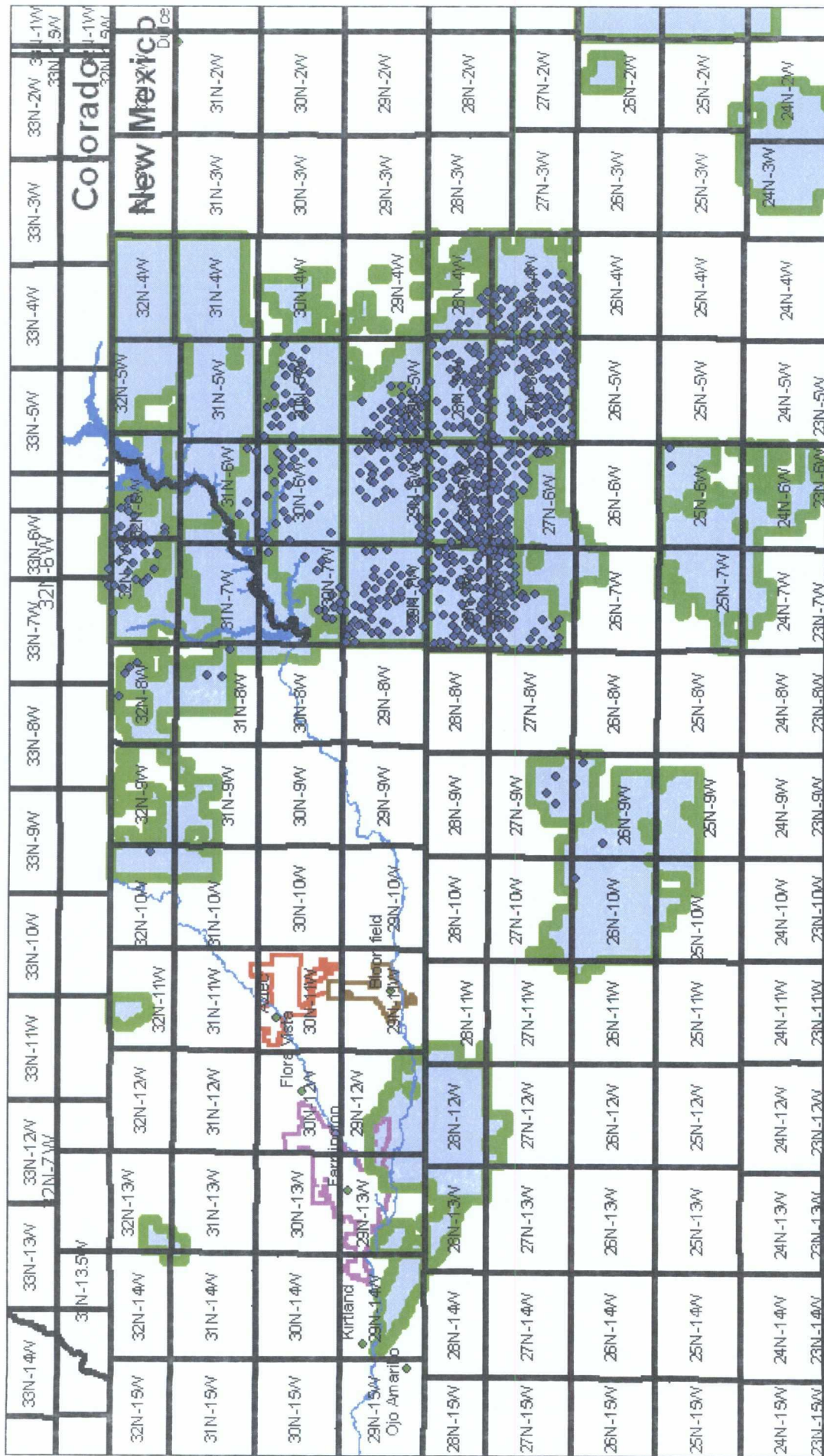
ConocoPhillips - San Juan Division

Commingle Wells In  
Federal Units (2,649)



0 20 40 60 80  
Miles  
0 20 40 60 80  
Kilometers  
© Updated Work - ConocoPhillips





**ConocoPhillips - San Juan Division**

**Commingle Wells In  
Federal Units Since 1997  
(1465)**

**Legend**

• Commingle Wells Since 1997

BR Federal Units

AZTEC

BLOOMFIELD

FARMINGTON

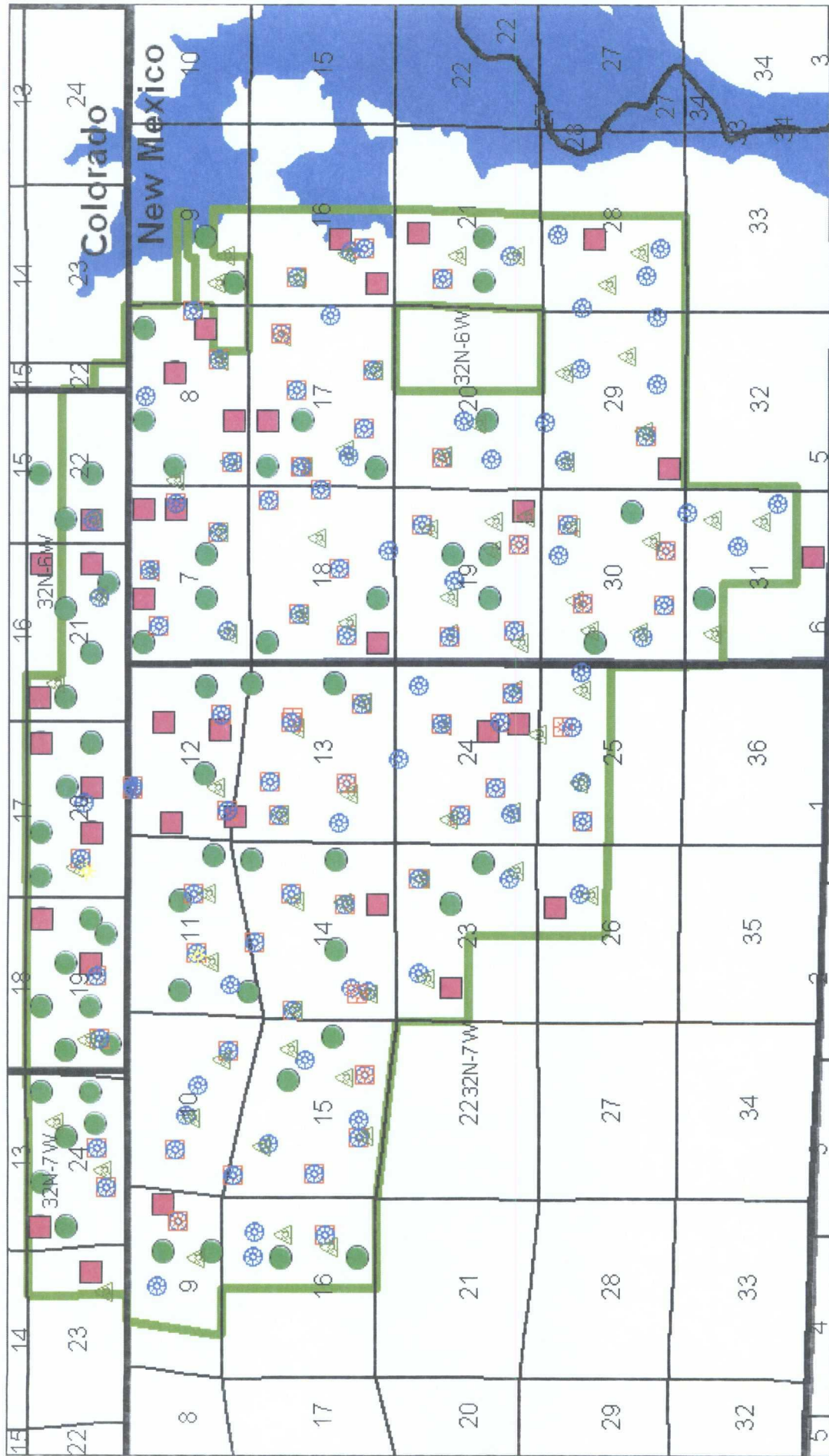
L48.SJB\_FEDERAL\_UNITS\_BR



Updated Work - ConocoPhillips

*Since 1997*





## Legend

- ▲ FRUITLAND COAL
- DSM Comingles
- Inventory comingles
- Allison Unit Boundary
- PICTURED CLIFFS
- MESAVERDE
- DAKOTA

CanocoPhillips - San Juan Division

## Allison Unit Inventory



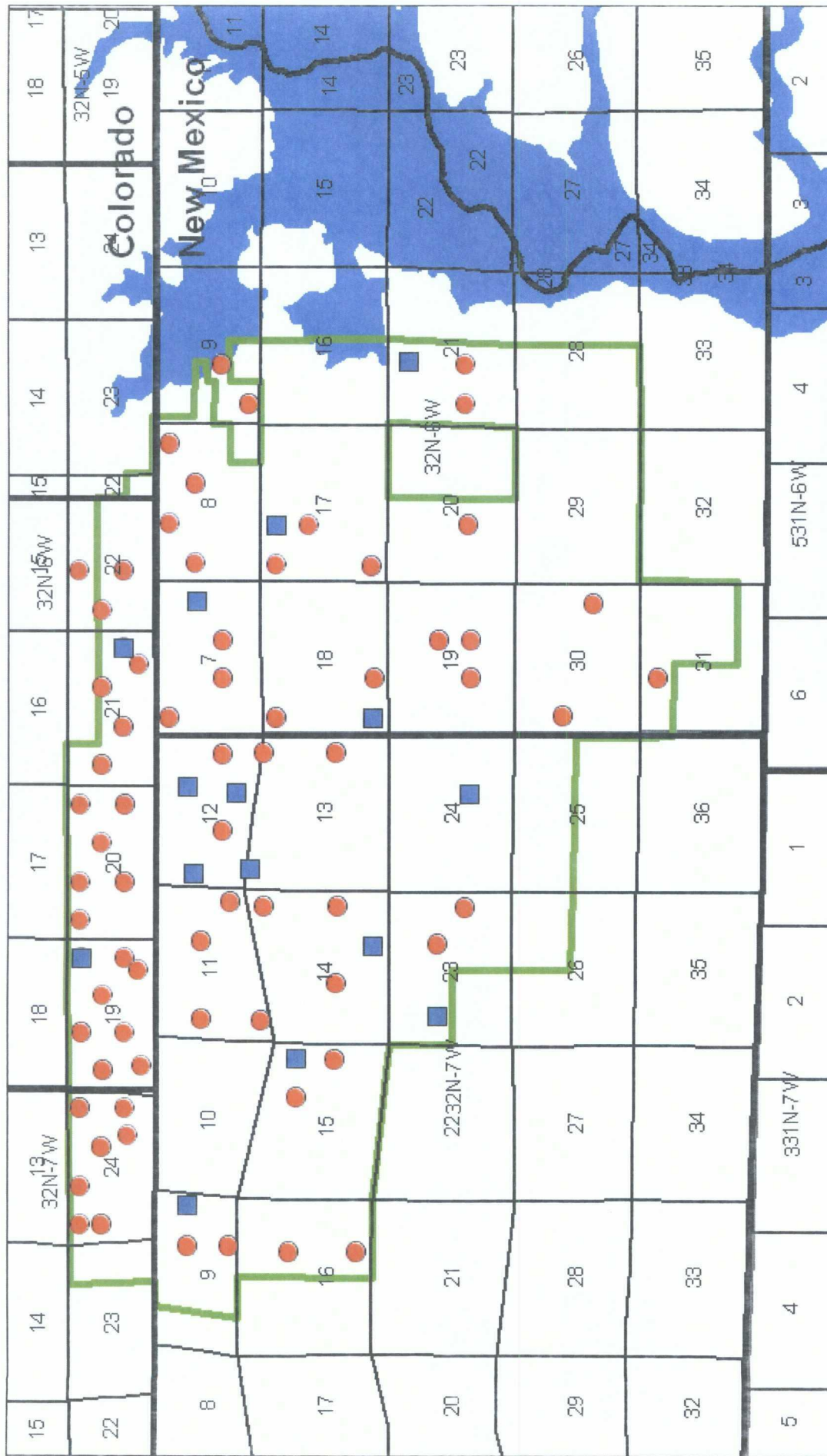
Copyrighted Work - CanocoPhillips

To be drilled

2-3 years out.

Add well

Complete Conf: data



# Legend

- DSM (58 Completions)
- Inventory (119 Completions)
- Allison Unit Boundary

ConocoPhillips - San Juan Division

Allison Unit



Updated Work, ConocoPhillips

**ARTICLE XV. F**  
**COST ALLOCATION PROCEDURES**

The entire costs, risk and expenses involved in drilling, testing, completing, equipping, reworking, deepening, plugging back and operating a well located on the Contract Area, in the event such well is completed in or proposed to be completed in two or more formations in which the working interest ownership differs, or in plugging and abandoning such well in one or more formations, shall be governed by the following provisions:

**A. Definitions**

- "Objective Formation" - the interval consisting of a zone, formation or horizon to be tested in a proposed operation, as stated in the AFE or notice whereby such operation was proposed.
- "Participating Interest" - the percentage of the costs and risks of conducting an operation under the applicable operating agreement that a Participating Party agrees, or is otherwise obligated, to pay and bear.
- "Participating Party" - with respect to a given formation, a Party that has approved a proposed operation or otherwise agreed, or become liable, to pay and bear a share of the costs and risks of conducting such operation under the applicable operating agreement.

References herein to multiple completion wells shall mean wells which are completed in, or proposed to be completed in, two or more formations, regardless of whether such formations are produced through separate tubing strings or commingled downhole.

**B. Formula for Allocation of Drilling, Completing, and Equipping Costs**

Whenever in this Agreement it is provided that costs will be borne by the Parties in accordance with this Section B, the following procedures will be used:

At the time a Party proposes the drilling of a well having two or more Objective Formations in which the working interest ownership differs, the proposing Party shall submit to the other Parties who are entitled to participate in the proposed operation, an estimate of the total costs of drilling, testing, completing and equipping said well to, and including, the wellhead in all Objective Formations. In a like manner, a Party which proposes to conduct a reworking, deepening, or plugging back operation on a well involving two or more formations in which the working interest ownership differs, shall submit to the other Parties entitled to participate in the proposed operation, an estimate of the total cost of the operation. The estimated costs shall be divided into the following categories:

- Costs to be incurred from the surface to the base of the shallowest Objective Formation, including pre-drilling costs that benefit all Objective Formations, but excluding those costs set forth in subsection B (5) hereof;

- Costs to be incurred from the base of the shallowest Objective Formation to the base of the next (second) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof ;
- Costs to be incurred from the base of the second shallowest Objective Formation to the base of the next (third) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof ;
- Costs incurred from the base of the second deepest Objective Formation to total depth;
- Costs attributable to testing and completing each formation, and the cost of equipping the well with respect to equipment that is used solely in connection with one formation; and
- Costs attributable to equipping the well beyond the wellhead, with respect to equipment that serves more than one formation.

**Article XV. F (Cont.)**

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The actual costs of drilling, testing, completing, and equipping the well will be apportioned among the Objective Formations, in accordance with the categories set forth above in this Section B, as follows:

- (1) Except as provided in Subsection B (5), pre-drilling costs that benefit all Objective Formations (including, but not limited to site surveys, site preparation, right-of-way and surface damage payments) shall be divided equally between all Objective Formations and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formations.
- (2) Except as provided in Subsection B (5), costs incurred from the surface to the base of the shallowest Objective Formation shall be divided between all Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.
- (3) Except as provided in Subsection B (5), costs incurred from the base of the shallowest Objective Formation to the base of the next shallowest (second) Objective Formation shall be divided between the second Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein in accordance with their respective Participating Interest in such formation. In a like manner, costs incurred from the base of the second Objective Formation to the base of the next shallowest (third) Objective Formation, other than those set forth in Subsection B (5), shall be divided between the third Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.



- (7) If the Objective Formations are a combination of Fruitland Coal and Pictured Cliffs or a combination of the Mesaverde and Dakota, the Parties agree that, rather than calculating a unique set of factors for each well, the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated based on the average relative footage for the following formations in the San Juan Basin, as set forth in the following table:

Formation	Base of Formation	FC/PC	MV/ DAK
Fruitland Coal	2700'	50%	
Pictured Cliffs	2900'	50%	
Mesa Verde	5600'		40%
Dakota	7000'		60%

C. **Drilling and Completing Wells in All Objective Formations**



Costs of drilling, testing, completing, and equipping wells to, and including, the wellhead which are begun with the objective of multiple completions and which are completed in all Objective Formations shall be borne by the Participating Parties in each Objective Formation in accordance with the provisions of Section B. The material and equipment in the well and on the surface shall be owned by the Parties paying the cost thereof pursuant to Section B. As to any well which was begun with the objective of multiple completions, drilling overhead shall be charged as though the well were a single well to be drilled to test the deepest formation, and borne in accordance with Section B. The working interest owners shall own all oil and gas produced from their respective formations in accordance with the applicable operating agreement for such formation.

Upon abandonment of the well, if dry in all formations, the costs of plugging and abandoning shall be borne in accordance with the provisions of Section B.

D. **Completion of Well in Fewer than All Objective Formations**

In the event that a well begun with the objective of multiple completions is drilled to the deepest formation and results in discovery of oil and/or gas in paying quantities in one or more Objective Formations, but is dry in one or more Objective Formations, all costs of drilling, testing, and completing the well shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. Likewise, all costs of equipping the well prior to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. All costs of equipping the well subsequent to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in the formation(s) being completed and if there are two or more formations being completed, the equipping costs shall be apportioned between such formations in accordance with Section B. Further, the Participating Parties as to the formation(s) being completed shall pay to the Participating Parties of the formation being abandoned the value of any salvable material and equipment paid for or furnished by such abandoning Parties which is used in connection with the formation being completed. Thereafter, the Participating Parties in the completed formation(s) shall own all materials and equipment acquired and installed in the drilling and completion of said well. The working interest owners in the completed formation(s) shall own all oil and gas produced from their respective formation in accordance with the applicable operating agreement, and shall bear all costs of operating,



- (4) Costs incurred from the base of the second deepest Objective Formation to total depth shall be charged to the Participating Parties in the deepest formation, in accordance with their respective Participating Interest in such formation.
- (5) Costs attributable to logging, testing, perforating, treating, stimulating and abandoning a given formation shall be charged to the Participating Parties therein, in accordance with their respective Participating Interests in such formation. The cost of equipping the well, with respect to equipment that is used solely in connection with a given formation, shall be charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.

The cost of acquiring and installing surface equipment beyond the wellhead that serves more than one formation shall be allocated equally to the formations served, except as otherwise provided in the "Taking Production in Kind" provision in the Operating Agreement. Equipping costs so allocated shall be charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation.

- (6) Except for those specific types of well completions identified in Subsection B (7), the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated to the Participating Parties of each respective Objective Formation, pursuant to Subsections (2), (3), and (4) of this Section B, on a footage basis as follows:

n = number of Objective Formations  
 $I_1$  = First, or shallowest Interval  
 $I_2$  = Second shallowest Interval  
 $I_3$  = Third shallowest Interval  
 $Base_x$  = Footage at the base of the x Interval

Cost allocated to  $I_1$ :  
 $(1/n * Base_1) / \text{Total Depth}$

**Article XV. F (Cont.)**  
**Page 3 of 7**

Cost allocated to  $I_2$ :  
 $[(1/n * Base_1) + ((1/(n-1)) * (Base_2 - Base_1))] / \text{Total Depth}$

Cost allocated to  $I_3$ :  
 $[(1/n * Base_1) + ((1/(n-1)) * (Base_2 - Base_1)) + ((1/(n-2)) * (Base_3 - Base_2))] / \text{Total Depth}$

If there are more than three (3) Objective Formations, costs shall be allocated to such other formations in a like manner.

reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the dry formation shall be borne by the working interest owners of the formation(s) being abandoned, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the working interest owners in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

**E. Partial Abandonment After Completion of Well in Multiple Formations**

In the event that, after completion of a well in two or more formations, the working interest owners of a given formation should decide to abandon the well as to their formation, the Participating Parties in the formation open to production ("Producible Formation") shall pay to the working interest owners of the formation to be abandoned ("Abandoning Parties"), the salvage value of any materials or equipment belonging to the Abandoning Parties that are used in connection with the Producible Formation. If there is more than one Producible Formation, such payment shall be apportioned between the Producible Formations so as to be consistent with the ownership of material and equipment as set forth in Section B. Upon making such payment, the Participating Parties as to the Producible Formation(s) shall own all of such materials and equipment. The working interest owners in the Producible Formation(s) shall own all oil and gas produced from their respective formation in accordance with the applicable operating agreement, and shall bear all cost of operating, reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the formation to be abandoned shall be borne by the Abandoning Parties, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the Abandoning Parties in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

**F. Adding Completions and Commingling**

Operations to deepen the well or recomplete the well at a shallower depth for the purpose of completing additional formations shall be proposed and approved by the Parties entitled to participate in the proposed completion attempt in accordance with the applicable operating agreement. Before any well which is completed in one or more formations may be deepened or recompleted at a shallower depth for the purpose of completing the well in an additional formation, such operation must have non-objection by all Participating Parties in each formation which is then capable of producing in paying quantities in such well. Failure of a Party owning an interest in a formation capable of producing in paying quantities to respond to a request for non-objection to a proposed deepening or recompletion within thirty (30) days after receipt of such request shall be deemed non-objection to such deepening or recompletion. Any Party owning a Participating Interest in a formation which is entitled to participate in the proposed deepening or recompletion shall have an election whether or not to participate in such deepening or recompletion operation that is separate from its non-objection to use of the wellbore. If the operation should result in an impairment of production from, or a loss of, the existing well, the provisions of Subsections H (4), (5) and (6) shall govern unless otherwise agreed.

As compensation for use of the wellbore the Participating Parties in the additional completion shall pay to said Participating Parties in each such formation then capable of producing in paying quantities ("Producing Parties") an amount calculated as set forth hereinbelow ("Wellbore Compensation"). Such Wellbore Compensation shall be equal to that portion of the Deemed Drilling Costs, depreciated as provided below, which the Participating Parties would have borne if they had originally participated in the drilling of the well under the terms of this Agreement. The Deemed Drilling Costs shall mean the applicable stated cost which corresponds to the deepest depth of the wellbore which will be used by the Participating Parties as follows: Fruitland Coal - \$220,000; Pictured Cliffs - \$200,000; and Mesa Verde - \$320,000. In the event that the additional completion is proposed in a formation other than those listed above, the Deemed Drilling Costs for such other formation shall be adjusted in the proportion that the depth and associated costs for such other formation reasonably bears to the depth and associated costs for the formations listed above. The applicable Deemed Drilling Costs shall be depreciated on a straight-line depreciation basis over a twenty (20) year period commencing as of the original completion date of the subject wellbore until the commencement date of operations for the additional completion.



If the estimated cost of commingling formations exceeds the Operator's expenditure limit under the Operating Agreement, the proposing Party shall submit an authority for expenditure to the Participating Parties in the formations proposed to be commingled. Notwithstanding anything to the contrary in the Operating Agreement, failure to respond to a proposal to commingle that does not include other operations in the well, within thirty (30) days after receipt of the proposal, shall be deemed approval of such commingling. The cost of the commingling operation shall be borne equally by all formations being commingled.

**G. Allocation of Operating and Maintenance Costs**

After completion of a well in two or more formations, the costs of producing operations shall be borne by the Participating Parties as to such formations as follows:

- (1) Notwithstanding anything to the contrary in the Accounting Procedure, each active completion, which is not commingled downhole shall be treated as a separate well for producing well overhead. Such expense shall be borne by the Participating Parties of the respective formations as a separate cost allocable to their interest. Active completions that are commingled shall be treated as one well for the purpose of charging producing well overhead and such charge shall be allocated to the Participating Parties in each commingled formation pursuant to the Allocation Formula most recently approved by the New Mexico Oil Conservation Division.
- (2) The Participating Parties as to each formation shall bear all costs of routine producing operations including costs of labor, repairs, maintenance and replacement of equipment attributable solely to such formation. For active completions which are not commingled downhole, all costs of operations performed for the joint benefit of two or more formations shall be borne equally by the formations benefiting from such operations and charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation. For active completions which are commingled downhole, all costs of operations performed for the joint benefit of such commingled formations shall be allocated to the Participating Parties in each commingled formation pursuant to the Allocation Formula most recently approved by the New Mexico Oil Conservation Division.

**H. Allocation of Cost of Workover Operations**

After completion of a well in two or more formations, a proposed workover, repair or other operation, excluding routine repair or maintenance work, shall be approved by the Parties owning a Participating Interest in all formations which are capable of producing in paying quantities, whether or not such formations are to undergo the proposed workover, repair or other operation. The costs and risk of any workover, repair or other operations on such well shall be borne by the Participating Parties in such workover, repair or other operation as follows:

- (1) The costs and risk of any workover, repair or other operation which is directly related to one formation, including but not limited to operations such as re-perforating the casing or

stimulating the formation, shall be borne by the Participating Parties in the formation for which the workover, repair or other operation is performed.

- (2) All costs and risk of any workover, repair, or other operation not directly related to one formation, including but not limited to repair and correction of leaks which may result in communication between formations within the well bore shall be borne equally by the formations benefiting from such work, and charged to the owners of each such formation in accordance with their respective Participating Interests.
- (3) Any material and equipment acquired by any such expenditures provided for in Subsection H(1) and H(2) above shall be owned by the Participating Parties of the respective formations so as to be consistent with the ownership of the material and equipment as set forth in Section B.

- (4) The working interest owners of the formation undergoing the workover, repair or other operation shall not be liable to the working interest owners of the formation(s) not being worked upon for cessation of production during such operations for a period of time not exceeding a cumulative total of sixty (60) days. In the event cessation of production during such operations is for a longer period of time, the Parties participating in such workover, repair, or other operation, hereinafter referred to as Remedial Owners, shall pay to the Participating Parties as to the formation not being worked upon, hereinafter referred to as Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of production occurring for each day in excess of such sixty (60) cumulative day period until such production is restored. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.
- (5) If the producing capacity of the formation not undergoing the workover, repair or other operation is reduced in excess of twenty percent (20%) as a result of such workover, repair or other operation, damages will be deemed to have occurred. If damages have occurred, the Remedial Owners shall pay to the Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of producing capacity. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.
- (6) It is understood, however, that liability for loss or damages under Subsections H (4) and H (5) shall not accrue hereunder if: (1) such loss or damage existed prior to actual commencement of the operations or prior to penetration by workover equipment of the damaged formation, and (2) the evidence is conclusive that the loss or damage resulted solely from the previously existing poor mechanical condition of the well. In no event shall Remedial Owners be required to pay Damaged Owners an amount greater than the cost of drilling and completing a replacement well.

**I. Payments**

If the amount of any payment due by working interest owners of one formation to the working interest owners of another formation(s), pursuant to Sections D, E, F, or H above, is agreed to by Parties having at least seventy-five percent (75%) Participating Interest in each of the respective formations, such agreement shall be binding on all Parties. Within thirty (30) days after agreement as to the amount of payment due, Operator shall invoice the working interest owners owing such payment. Within thirty (30) days after receipt of the invoice, each Party owing such payment shall send its payment to the Operator. The Operator will distribute the payments so received, along with any payment owed by the Operator, to the owners of the formation to whom payment is due within sixty (60) days after the invoice is issued. The Operator shall make a good faith effort to collect any such payments owed by the non-operators. If, any non-operator fails to make a payment due hereunder, the Operator may, after making a good faith effort to collect, turn over the responsibility for collecting the payment to the Party to whom it is owed, and the Operator will have no further liability with regard to such payment.



J. Non-Consent Wells

Any payments made by owners of one formation to the owners of another formation(s) pursuant to Sections D, E, F, or H above, that would have been received by a Non-Consenting Party had it not relinquished its interest in the well, shall be credited against the total unreturned costs of the non-consent operation in determining when the interest of such Non-Consenting Party shall revert to it as provided in the applicable Operating Agreement; and if there is a credit balance, it shall be paid to such Non-Consenting Party. Likewise, any payments made by owners of a formation to owners of another formation(s) pursuant to Sections D, E, F or H above, that would have been made by a Non-Consenting Party had it not relinquished its interest in the well shall be deemed to be part of the cost of the non-consent operation and shall be added to the sums to be recouped by the Consenting Parties as provided in the applicable Operating Agreement.

**K. Dispute Resolution**

If a dispute arises between the Parties under this Agreement and is not resolved by negotiation, the dispute shall be submitted to mediation before any Party resorts to litigation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties to the dispute shall each have present at the mediation at least one individual who has authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such actions, the Parties shall continue to try to resolve the dispute by negotiation or mediation as necessary.

## Allison Unit General Operating Provisions

### "Divided Type Units":

All divided type units involve the concept of an extension well which is a well proposed and drilled within the Unit boundary but **outside** the boundaries of the existing Participating Area (PA).

The unit agreement will adopt for the unit royalty owners the same effective date for PA revisions as set forth in the unit agreement so that all interest owners' equity will be calculated from the same point in time using the same acreage area for participating in production.

While divided type units may use different "appropriate effective dates" for PA revision, all types rely on PA's established under the terms of the unit agreement to fix the point in time for allocating revenues between royalty owners and working interest owners and for allocating costs and revenues among the working interest owners.

(a) **Inclusive type unit:** In an "inclusive" type of divided unit, such as the Huerfano Unit, it is anticipated and expected that the PA will change and so the unit operating agreement provides for the investment adjustments which are to be made among the working interest owners upon the creation of an initial PA and each subsequent expansion or contraction.

(b) **Exclusive type unit:** *Other types of divided units, the "exclusive type",* do not employ investment adjustments for well costs and risk. For example, the San Juan 30-6 Unit for well costs and risks in the formations from the surface to the base of the Mesaverde formation is an "exclusive" type. However, please note that the San Juan 30-6 Unit **does** employ these investment adjustments for formations below the base of the Mesaverde formation and therefore would be an "inclusive type" as to these deeper formations.



**Extension Well:**

An extension well is defined as a well drilled after discovery of unitized substances in paying quantities in the unit area and is located outside an existing PA. Where an extension well is involved, the working interest owners in that well's drill block make elections to participate or to go non-consent subject to the prescribed penalties.

**Drill Block:**

A drill block is established as a basis for allocating costs of an extension well in the event it proves to be a dry hole and for certain types of divided units to allow for the recovery of costs, and penalties from the owners of that drill block prior to its inclusion in the PA. The size and shape of the Drill Block is determined by the spacing rules adopted by State of New Mexico Oil Conservation Division for formations below the base of the Mesaverde Formation in township units (i.e. San Juan 30-6 Unit) and generally in the named units (i.e. Huerfano Unit). In the township units the Unit Agreement sets the spacing units at 320 acres for formations above the base of the Mesaverde formation. If "commercial" (aka "paying quantities") production is obtained, an existing PA will be expanded to include the newly proved lands based upon an "appropriate effective date". Payouts are handled within the PA on a tract basis.

**Determining Production in Paying Quantities:**

The term "paying quantities" is defined in the unit agreement as "quantities sufficient to repay the costs of drilling, completing, and producing operations with a reasonable profit..." The costs of producing operations is defined as "the costs of maintaining the lease and producing the wells, including the costs of marketing the product."

#### **Revision of a Participating Area:**

Upon completion of an extension well, the unit operator has the primary duty to the BLM, Commissioner of Public Lands and Oil Conservation Division of New Mexico (the "agencies") of determining that the well is capable of production in paying quantities. When questionable, such a determination may be delayed while the operator produces the well to obtain production history which will be used to make the "paying well" determination.

#### **Effective Date of Revision of PA:**

A revision of a PA is effective the first day of the month in which the knowledge or information for making the revision is obtained. For many of the units in the San Juan Basin, the effective date usually has been deferred until the first of the month following the completion date of the well. However, a more appropriate date can be provided by the operator and approved by the agencies if justified.

#### **Calculation of Interest Percentage:**

Royalty interests and working interests are **always** calculated based upon their relative share of production attributed to the **same** surface area **at the same point in time**. For example, Section 22 of the Huerfano Unit Agreement illustrates that royalties have to "follow" the working interest in order to correctly pay taxes.