

BORDER HILL PROSPECT AREA
Chaves, De Baca & Roosevelt Counties, New Mexico

STRUCTURE MAP
Top/Pennsylvanian
Contour Interval: 100'

○ - SHOW / OIL OR GAS ○ - PROD. FROM PENN

Geologist: A. T. Kuhns III Scale: 1' = 4000'

R 28 E

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

Mannes EXHIBIT NO. 3

CASE NO. 9839

GEOLOGIC BRIEF

Prepared for
Sand Draw Unit Filing

REPORT BY/THREE CATERACH	
OIL CONSERVATION DIVISION	
Mannes	EXHIBIT NO. 4
DATE	9839

SAND DRAW UNIT

Geographic location: Townships 3 and 4 south ranges 27 and 28 east

Geologic location: South Flank of the Roosevelt positive.

Primary objective: Pennsylvanian sand

GEOLOGIC BRIEF

1. Prospect setting

The proposed unit is located along the southern flank of the Roosevelt Positive, and strike along a right lateral fault identified with seismic and landsat. A first order wrench anticline has developed on the south side of the northeast trending lateral fault. The anticline, identified by seismic, has given structural enhancement to a Pennsylvania channel sand identified by several basement tests approximately three miles south from the crest of the structure.

Well Control

The wells incorporated into the evaluation of the prospect are located on the accompanying map. The following six wells are critical in the geologic development of the prospect unit.

1. Leonard 1-Fed. White
2. McCellan 1-North Newmill Fed.
3. Miller 1-State
4. Shenandoah 1-Sea Properties
5. Sunray DX 1-St. "AK"
6. Marathon 1-St.

It is this group of wells that identify and limit the presence of the primary objective. The above listed wells encountered shows in several Pennsylvanian sands, but one development, identified as the "B" channel, has the aerial consistency to be considered a prospective target. It is the "B" channel sand that is displayed on the accompanying map.

The three key wells in developing the projected reservoir, are the Leonard, Shenandoah, and the Miller. The Leonard and Miller wells establish the potential for a gas reservoir by showing the channel is gas bearing, from drill stem tests, and the sand thickens over the spurious sand development found in the Pennsylvania section in the area.

The Leonard well is the well used to define the limit of the reservoir, due to the gas shows found in a core of the sand, but a marginal recovery from a drill stem test. (DST 6335-6445, open 1 hour recovered 120 feet of mud with no shows)

In comparison the Miller well recorded a flowing drill stem test from the same sand. The Miller well is approximately 50 feet high to the Leonard well on a carbonate marker just below the sand development. The successful test of the Miller establishes the structural enhancement of the zone, even though it occurs on a smaller feature than the prospect structure.

Seismic Identification

Because of the lack of well control in the area, an attempt at seismic identification of the prospective target was made. Synthetic seismograms obtained from two wells in the newly established Tule field, located 8 miles to the northeast of the unit area, along with a synthetic from the Sunray DX well. The synthetics were used to develop a seismic model for sand development in the lower Pennsylvania section. A amplitude anomaly was found to correlate to sand development, and it is this seismic signature that is incorporated in the mapping of the channel in the unit area.

Conclusions

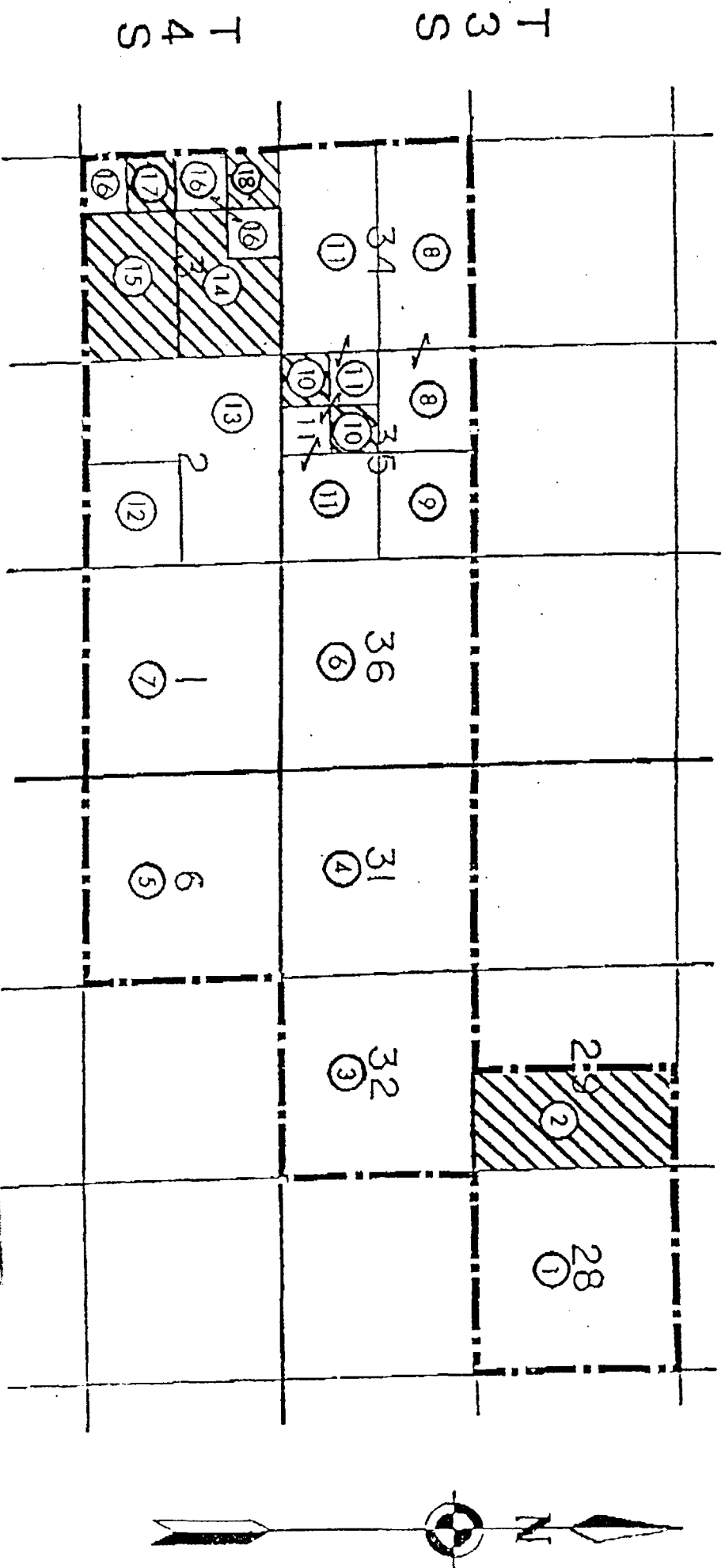
The proposed unit was designed to test the presence of a gas bearing channel sand in the lower Pennsylvania, that is draped along the axis and southeast flank of a northeast trending anticline.

The existence of the target sand is established by well control to the southwest of the unit area. The well control

further establishes certain parameters that must be present before hydrocarbons are found, these parameters being, one: That a porous section of 8 feet or more must exist in the sand, and two: that structural position plays a role in reservoir quality.

SAND DRAW UNIT

Chaves Co., New Mexico



R 27 E

☒ FEDERAL LANDS

☐ STATE LANDS

--- UNIT OUTLINE

① LEASE TRACTS

BEFORE EXAMINATION
OIL CONSERVATION DIVISION

Map No. EXHIBIT NO. 5

CASE NO. 9839

EXHIBIT A



1" = 4000'

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
Mannes EXHIBIT NO. 6
CASE NO. 9839

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1.	Township 3 South, Range 28 East N.M.P.M. Section 28: All	640	LG-7665 2-1-90	12.5%	Chevron U.S.A. Inc.	0	100%
2.	Township 3 South, Range 28 East N.M.P.M. Section 29: E/2	320	NM-78240 11-30-93	12.5%	Robert J. Mannes	0	100%
3.	Township 3 South, Range 28 East N.M.P.M. Section 32: All	640	LG-7666-1 2-1-90	12.5%	Enron Oil & Gas Co.	6.25% Enron Oil & Gas Co.	100%
4.	Township 3 South, Range 28 East N.M.P.M. Section 31: All	632.80	V-3121 11-1-94	16.66%	Robert J. Mannes	0	100%
5.	Township 4 South, Range 28 East Section 6: All	631.95	VA-276 11-1-94	12.5%	Robert J. Mannes	0	100%
6.	Township 3 South Range 27 East N.M.P.M. Section 36: All	640	LG-7446 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
7.	Township 4 South Range 27 East N.M.P.M. Section 1: All	640	VA-266 10-1-94	12.5%	Robert J. Mannes	0	100%
8.	Township 3 South, Range 27 East N.M.P.M. Section 34: N/2 Section 35: NW/4	480	LG-7445 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%
9.	Township 3 South Range 27 East N.M.P.M. Section 35: NE/4	160	VA-265 10-1-94	12.5%	Robert J. Mannes	0	100%
10.	Township 3 South Range 27 East N.M.P.M. Section 35: NE/4SW/4, SW/4SW/4	80	67495 12-31-96	12.5%	Robert J. Mannes	Kerr-McGee: 12.5%	100%
11.	Township 3 South Range 27 East N.M.P.M. Section 34: S/2, Section 35: NW/4SW/4, SE/4SW/4, SE/4	560	LG-7444 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
12.	Township 4 South Range 27 East N.M.P.M. Section 2: SE/4	160	VA-267 10-1-94	12.5%	Robert J. Mannes	0	100%
13.	Township 4 South Range 27 East N.M.P.M. Section 2: Lots 1,2,3,4, S/2N/2, SW/4	479.52	LG-7679-1 2-1-90	12.5%	Enron Oil & Gas Co	6.25% Enron Oil & Gas Co.	100%
14.	Township 4 South Range 27 East N.M.P.M. Sections 3: Lots 1,2, S/2NE/4, SE/4NW/4	199.46	NM-19837 H.B.P.	12.5%	McClellan Oil Corp.	Catherine D. Hatch: .75% Ronald Hatch: .75% Dell K. & Nell H. Hatch: .75% Rodney & Teresa Hatch: .75% McClellan Oil Corp: 4.5%	100%
15.	Township 4 South Range 27 East N.M.P.M. Section 3: SE/4, E/2SW/4	240	NM-61337 6-30-95	12.5%	McClellan Oil Corp.	Sulimar Company: 1/2 of 1%; Milan S. & Kay Papulak: 5% McClellan Oil Corp: 3%	100%
16.	Township 4 South Range 27 East N.M.P.M. Section 3: Lot 3, SW/4NW/4, SW/4SW/4	119.69	LG-7680-1 2-1-90	12.5%	Enron Oil & Gas Co	6.25% Enron Oil & Gas Co.	100%

697
C. B. Mannes

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST PERCENT
17.	Township 4 South Range 27 East N.M.P.M. Section 3: NW/4SW/4	40	NM-68643 6-30-97	12.5%	Robert J. Mannes	Howell R. Spear: 5%	100%
18.	Township 4 South Range 27 East N.M.P.M. Section 3: Lot 4	38.65	Uncommitted				

168 West 32nd Street
P.O. Box 1918
Holland, Michigan 49422-1918

Res: (616) 335-2502
Office: (616) 396-1445

Robert J. Mannes
Oil & Gas Exploration

November 20, 1989

We have applied for approval of the White Draw Unit which is described as follows:

T3S, R27E: Section 34: All; Section 35: All except NE $\frac{1}{4}$ SW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$; Section 36: All.

T3S, R28E: Section 28: All; Section 29: E $\frac{1}{2}$
Section 31: All; Section 32: All

T4S, R27E: Section 1: All; Section 2: All
Section 3: All except NW $\frac{1}{4}$ NW $\frac{1}{4}$.

T4S, R28E: Section 6: All.

A hearing seeking approval for said Unit will be held on December 13, 1989 before the Oil Conservation Commission in the Conference Room of the Commission in Santa Fe, New Mexico.

Very truly yours,

Robert J. Mannes

RJM:mm

BEFORE EXAMINER CAPANAH	
OIL CONSERVATION DIVISION	
<u>Mannes</u>	EXHIBIT NO. <u>9</u>
CASE NO. <u>9839</u>	

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: Mr. Joe Lara Bureau of Land Management P. O. Box 1397 Roswell, NM 88202-1397	4. Article Number P 932 974 489 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>[Signature]</i>	
7. Date of Delivery 11-24-89	

PS Form 3811, Mar. 1988

* U.S.G.P.O. 1986-212-865

DOMESTIC RETURN RECEIPT

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Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Floyd O. Prando Commissioner of Public Lands P. O. Box 1148 Santa Fe, NM 87504-1148	4. Article Number P-630 994 457 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X <i>[Signature]</i>	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X	
7. Date of Delivery	

PS Form 3811, Feb. 1986

DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address.		2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to: Sulimar Company P. O. Drawer 730 Roswell, New Mexico 88202		4. Article Number P 932 974 500	
		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD	
5. Signature - Addressee X		Always obtain signature of addressee or agent and DATE DELIVERED .	
6. Signature - Agent X <i>Kathy Lucas</i>		Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery			

PS Form 3811, Feb. 1986

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1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address.		2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to: Catherine D. Hatch 327 Crestview Dr. Price, Utah 84501		4. Article Number P 932 974 491	
		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD	
5. Signature - Addressee X <i>[Signature]</i>		Always obtain signature of addressee or agent and DATE DELIVERED .	
6. Signature - Agent X		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery			

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1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address.		2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to: Ronald H. Hatch 1200 Gough St., 24-F San Francisco, CA 94109		4. Article Number P 932 974 492	
		Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> COD	
5. Signature - Addressee X		Always obtain signature of addressee or agent and DATE DELIVERED .	
6. Signature - Agent X <i>Giovanni Cavallaro</i>		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery			

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1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Dell K & Nell H Hatch 2200 Sacramento Station 706 San Francisco, CA 94115	4. Article Number P 932 974 493 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X	
7. Date of Delivery	

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1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Rodney & Teresa Hatch 6702 Southeast 29th Ave. Portland, OR 97202	4. Article Number P 932 974 494 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X	
7. Date of Delivery	

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1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Milan & Kay Papulak 281 E. 2050 South Bountiful, Utah 84010	4. Article Number P 932 974 495 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X	
7. Date of Delivery	

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1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: Mr. Jack McClellan McClellan Oil Co. Drawer 730 Roswell, NM 88202	4. Article Number P 932 974 490
5. Signature — Address X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature — Agent X	Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
7. Date of Delivery 11-27-85	8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

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Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery.

3. Article Addressed to: Howell R. Spear Old Magnolia Rd. P. O. Box 206 Perkinston, MS 39573	4. Article Number P 932 974 496
5. Signature — Addressee X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
6. Signature — Agent X	Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
7. Date of Delivery 11-27-85	8. Addressee's Address (ONLY if requested and fee paid)

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1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge) 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to: Frank C. Estep Enron Oil & Gas Co. P. O. Box 2267 Midland, TX 79702	4. Article Number P 932 974 488
5. Signature — Address X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature — Agent X	Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
7. Date of Delivery 11-27-89 NOV 27 1989	8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SAND DRAW UNIT AREA
COUNTY OF CHAVES
STATE OF NEW MEXICO
NO.

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

Mannes EXHIBIT NO. 7
CASE NO. 9839

THIS AGREEMENT, entered into as of the 7th day of December 19 89 , by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 19-10-45, 46, 47 NM Statutes 1978 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, NM Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

Township 3 South, Range 28 East, N.M.P.M.

Section 28: All
Section 29: E/2
Section 31: All
Section 32: All

Township 4 South, Range 28 East, N.M.P.M.

Section 6: All

Township 3 South, Range 27 East, N.M.P.M.

Section 34: All
Section 35: All
Section 36: All

Township 4 South, Range 27 East, N.M.P.M.

Section 1: All
Section 2: All
Section 3: All

Containing 6,702.07 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized officer, hereinafter referred to as "AO", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than four (4) copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office, and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division".

The above-described unit area shall, when practicable, be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, or the Land Commissioner (after preliminary concurrence by the AO and the Land Commissioner) shall prepare a Notice of Proposed Expansion or Contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

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

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO, the Land Commissioner and the Division, evidence of mailing of the Notice of Expansion or Contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, the Land Commissioner and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, all legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than ninety (90) days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within ten (10) years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within ninety (90) days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all non-participating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this Subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed two (2) years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the AO and the Land Commissioner provided such extension application is submitted not later than sixty (60) days prior to the expiration of said 10-year period.

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

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

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

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

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

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

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by the working interest owners, the owners of the working interests according to their respective acreage interests in all unitized land shall, pursuant to the approval of the parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

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

(b) the selection shall have been approved by the AO and approved by the Land Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the AO and the Land Commissioner, at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit

Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office and one true copy with the Land Commissioner, and one true copy with the Division prior to approval of this unit agreement.

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, if on Federal land, or by the Land Commissioner, if on State land, and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the

formations above the Pre-Cambrian has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land, or the Land Commissioner if on State land, or the Division if located on Fee land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 7000 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO and Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed, prior to the establishment of a participating area, including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after fifteen (15) days' notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first six (6) months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division, an acceptable plan of development and

operation for the unitized land which, when approved by the AO, the Land Commissioner and Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time, 30 days before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

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

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

(b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO and the Land Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, nor further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner and Division, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner or the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, the Land Commissioner and Division, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner, and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which

such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participation area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating areas is based are abandoned.

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

In the absence of agreement at any time between the Unit Operator and the AO, the Land Commissioner and Division, as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests and the AO and the Land Commissioner. Royalties due to the United States and the State of New Mexico shall be determined by the AO for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the AO and the Land Commissioner until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production for development purposes, for repressuring or recycling in accordance with a plan of development and operations which has been approved by the AO, Land Commissioner and Division, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production. For the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time of such transferred gas was finally produced and sold.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized

land having thereon a regular well location may with the approval of the AO and the Land Commissioner, and the Division at such party's sole risk, costs, and expense, drill a well to test any formation provided the well is outside any participating area established for that formation, unless within ninety (90) days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

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

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

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal lease, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of State lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United

States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rate specified in the respective leases.

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

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

17. DRAINAGE. The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances for unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary, as to Federal leases and the Land Commissioner, as to State leases, shall and each by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO and the Land Commissioner, or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 1, 1960, (74 Stat. 781-784) (30 U.S.C. 226(j)): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization. Provided, however that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof, but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made the subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as the effective date hereof; contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all lands embraced therein, shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas; said lease shall continue in full force and effect as to all the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the AO and the Land Commissioner or their duly authorized representative and shall automatically terminate five (5) years from said

effective date unless:

(a) Upon application by the Unit Operator such date of expiration is extended by the AO and the Land Commissioner; or

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

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or reworking within sixty (60) days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred; or.

(d) It is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and the Land Commissioner. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance with Section 9.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and also to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

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

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

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

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

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division and the Unit Operator prior to the approval of this agreement by the AO and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest only subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO, the Land Commissioner and the Division of duly executed

counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

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

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

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

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

(a) accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(c) provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within six (6) months after the surrendered or forfeited, working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any monies found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

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

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

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

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

Marcia A. Mokuna

By

Date of Execution 1/2-7-89

STATE OF MICHIGAN)
) ss.
COUNTY OF ALLEGAN)

Marcia A. Mokema

My Commission Expires 8-3-91

RATIFICATION AND JOINDER OF UNIT AGREEMENT
AND
UNIT OPERATING AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the SAND DRAW UNIT AREA, County of _____, State of New Mexico, dated _____, 19____, in form approved on behalf of the Secretary of the Interior and the Commission of Public Lands, and in consideration of the execution or ratification by other working interest owners of the contemporary Unit Operating Agreement which relates to said Unit Agreement the undersigned hereby expressly ratifies, approves and adopts said Unit Agreement as fully as though the undersigned had executed the original agreement.

This Ratification and Joinder shall be effective as to the undersigned's interests in any lands and leases, or interests therein, and royalties presently held or which may arise under existing option agreements or other interests in unitized substances, covering the lands within the Unit Area in which the undersigned may be found to have an oil and gas interest.

This Ratification and Joinder of Unit Agreement shall be binding upon the undersigned, his, her or its heirs, devisees, executors, assigns or successors in interest

EXECUTED this _____ day of _____, 198

Attest

TRACT(S) _____

Address: _____

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____, 1986, before me personally _____, to me knoww to be the person described in and who executed the foregoing instrument, and acknowledged that (s)he executed the same as his/her free act and deed.

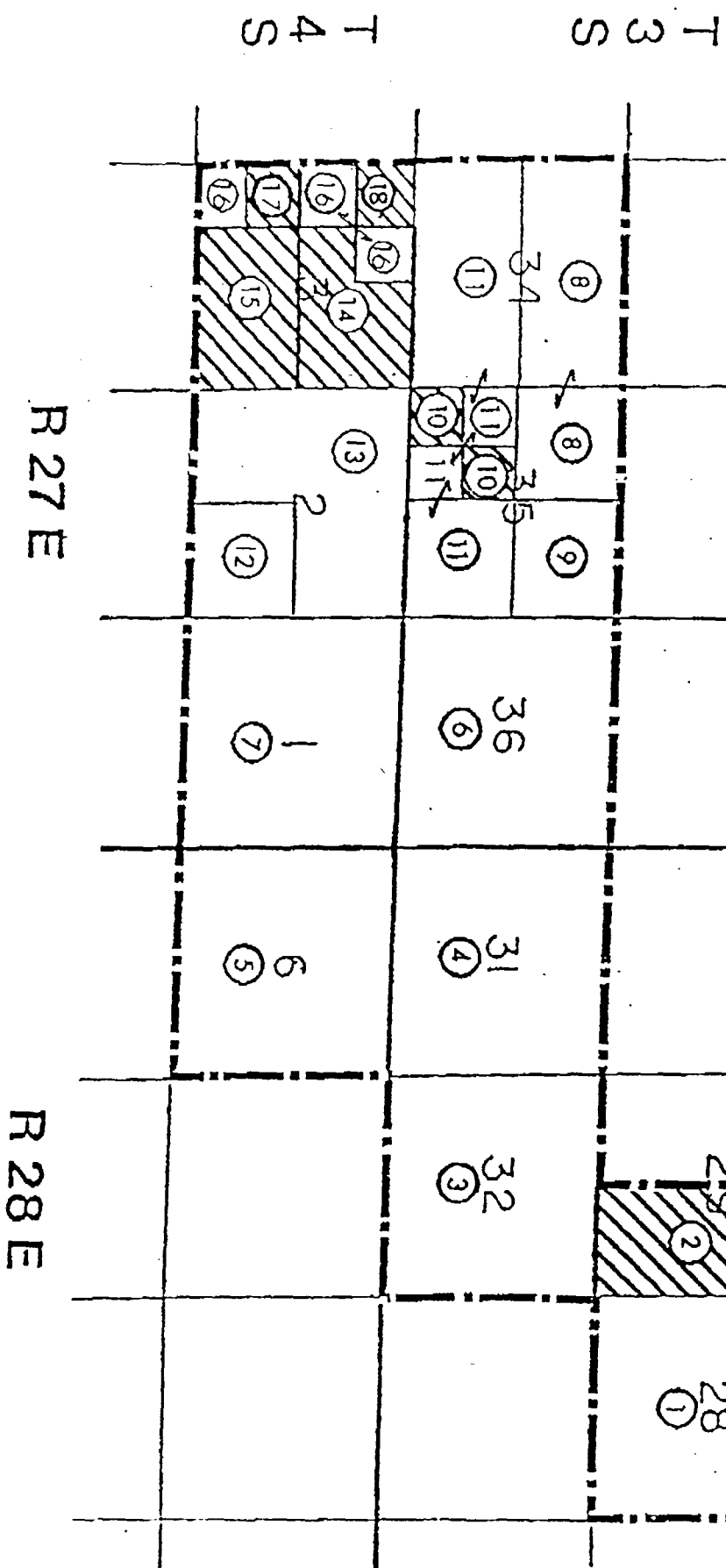
My Commission Expires:

SEAL

Notary Public

SAND DRAW UNIT

Chaves Co., New Mexico



- ☒ FEDERAL LANDS
- ☐ STATE LANDS
- UNIT OUTLINE
- ① LEASE TRACTS

EXHIBIT A

1" = 4000'

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKIN INTEREST PERCENT
1.	Township 3 South, Range 28 East N.M.P.M. Section 28: All	640	LG-7665 2-1-90	12.5%	Chevron U.S.A. Inc.	0	100%
2.	Township 3 South, Range 28 East N.M.P.M. Section 29: E/2	320	NM-78240 11-30-93	12.5%	Robert J. Mannes	0	100%
3.	Township 3 South, Range 28 East N.M.P.M. Section 32: All	640	LG-7666-1 2-1-90	12.5%	Enron Oil & Gas Co.	6.25%	100%
4.	Township 3 South, Range 28 East N.M.P.M. Section 31: All	632.80	V-3121 11-1-94	16.66%	Robert J. Mannes	0	100%
5.	Township 4 South, Range 28 East Section 6: All	631.95	VA-276 11-1-94	12.5%	Robert J. Mannes	0	100%
6.	Township 3 South Range 27 East N.M.P.M. Section 36: All	640	LG-7446 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST PERCENT
7.	Township 4 South Range 27 East N.M.P.M. Section 1: All	640	VA-266 10-1-94	12.5%	Robert J. Mannes	0	100%
8.	Township 3 South, Range 27 East N.M.P.M. Section 34: N/2 Section 35: NW/4	480	LG-7445 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%
9.	Township 3 South Range 27 East N.M.P.M. Section 35: NE/4	160	VA-265 10-1-94	12.5%	Robert J. Mannes	0	100%
10.	Township 3 South Range 27 East N.M.P.M. Section 35: NE/4SW/4, SW/4SW/4	80	67495 12-31-96	12.5%	Robert J. Mannes	Kerr-McGee: 12.5%	100%
11.	Township 3 South Range 27 East N.M.P.M. Section 34: S/2, Section 35: NW/4SW/4, SE/4SW/4, SE/4	560	LG-7444 1-1-90	12.5%	Chevron U.S.A. Inc.	0	100%

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST PERCENTAGE
12.	Township 4 South Range 27 East N.M.P.M. Section 2: SE/4	160	VA-267 10-1-94	12.5%	Robert J. Mannes	0	100%
13.	Township 4 South Range 27 East N.M.P.M. Section 2: Lots 1,2,3,4, S/2N/2, SW/4	479.52	LG-7679-1 2-1-90	12.5%	Enron Oil & Gas Co	6.25% Enron Oil & Gas Co.	100%
14.	Township 4 South Range 27 East N.M.P.M. Sections 3: Lots 1,2, S/2NE/4, SE/4NW/4	199.46	NM-19837 H.B.P.	12.5%	McClellan Oil Corp.	Catherine D. Hatch: .75% Ronald Hatch: .75% Dell K. & Nell H. Hatch: .75% Rodney & Teresa Hatch: .75% McClellan Oil Corp: 4.5%	100%
15.	Township 4 South Range 27 East N.M.P.M. Section 3: SE/4, E/2SW/4	240	NM-61337 6-30-95	12.5%	McClellan Oil Corp.	Sulimar Company: 1/2 of 1%; Milan S. & Kay Papulak: 5% McClellan Oil Corp: 3%	100%
16.	Township 4 South Range 27 East N.M.P.M. Section 3: Lot 3, SW/4NW/4, SW/4SW/4	119.69	LG-7680-1 2-1-90	12.5%	Enron Oil & Gas Co	6.25% Enron Oil & Gas Co.	100%

EXHIBIT "B"

Schedule Showing All Lands and Leases
Within the Sand Draw Unit
Chaves County, New Mexico

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PER- CENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST PERCENTAGE
17.	Township 4 South Range 27 East N.M.P.M. Section 3: NW/4SW/4	40	NM-68643 6-30-97	12.5%	Robert J. Mannes	Howell R. Spear: 5%	100%
18.	Township 4 South Range 27 East N.M.P.M. Section 3: Lot 4	38.65	Uncommitted				

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
Manner EXHIBIT NO. 8
CASE NO. 9839

UNIT OPERATING AGREEMENT

UNIT AREA

COUNTY OF

STATE OF

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Exhibit 5	Insurance (Referred to in Section 9.2).

UNIT OPERATING AGREEMENT

UNIT AREA

COUNTY OF

STATE OF

THIS AGREEMENT made as of the seventh day of December, 1989, by and among the parties who execute or ratify this agreement or a counterpart hereof

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE Sand Draw UNIT AREA, County of Chaves, State of New Mexico, dated as of the 7th day of December, 1989, and hereinafter referred to as the "Unit Agreement," covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement.
NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1 DEFINITIONS

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

1.2 "Unit Operator" means Robert J. Mannes and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

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

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

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

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

1.7 "Beneficial Interest" of a Party means the proportion (expressed as a percentage) that the net acreage of its Committed Working Interest or Interests bears to the total net acreage of all the Committed Working Interests of the Parties; for the purposes of this definition the net acreage of the Committed Working Interest owned by a Party in a tract shall be calculated by multiplying the acreage of such tract, as shown in Exhibit B to the Unit Agreement, by the percentage of the oil and gas which, if produced from such tract in the absence of the Unit Agreement and this agreement, would accrue to such Committed Working Interest after deducting all Lease Burdens (whether payable in cash or in kind) shown on said Exhibit B as an encumbrance upon such Committed Working Interest.

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

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

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

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

1.12 "Drill" means to perform all operations reasonably necessary and incident to the drilling of a well, including preparation of roads and drill site, testing and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

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

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

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

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

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

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

ARTICLE 2

APPORTIONMENT OF COSTS AND OWNERSHIP OF AVAILABLE PRODUCTION AND PROPERTY

2.1 Apportionment. Except as otherwise specified herein, (particular reference being made to Sections 9.3 Taxes, 14.10 Effect of Option 2 Assignment, 14.11 Rights and Obligations of Drilling Party Under Option 2, 16.7 Relinquishment of Interests by Non-Drilling Party, 16.8 Rights and Obligations of Drilling Party, 18.9 Relinquishment of Interest by Non-Drilling Parties, 18.11 Rights and Obligations of Drilling Parties, and 25.3 Rights and Obligations of Non-Abandoning Parties):

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

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

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

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

ARTICLE 3 UNLEASED INTERESTS

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

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

ARTICLE 4 RENTALS AND LEASE BURDENS

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

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

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

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

ARTICLE 5 COMPENSATORY ROYALTIES

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

ARTICLE 6 LIABILITIES FOR DAMAGES TO OWNERS OF UNCOMMITTED ROYALTY INTERESTS

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

ARTICLE 7 SUPERVISION OF OPERATIONS BY PARTIES

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

7.2 Voting Control. Each Party having the right to vote on any matter shall have a vote thereon equal to its Participating Interest. Except as provided in Section 20 of the Unit Agreement and except as otherwise specified herein, (particular reference being made to Sections 7.6 Audits, 11.5 Approval of Titles, 21.1 Consent Required [Secondary Recovery and Pressure Maintenance], 25.1 Consent Required [Abandonment of Producing Wells], 26.2 Right to Surrender Inside Participating Area, and 36.2 Required Withdrawal), the affirmative vote of Parties having.....
seventy-five.....per cent (.....75.....%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has.....
.....per cent (.....%) or more of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative has more than.....
.....per cent (.....%), but less than fifty per cent (50%), of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled

to vote unless such Party's negative vote is supported by the negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any approval, authorization or direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

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

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

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

7.6 Audits. From time to time, but not more often than once each year an audit may be made of Unit Operator's records and books of account pertaining to operations hereunder. Each such audit shall be made by auditors in the employ of Parties whenever an audit is Directed by the Parties other than the Party acting as Unit Operator, which Parties shall also Approve the allowance to be made to each Party furnishing an auditor. Such allowances shall be paid by the Parties (other than the Party acting as Unit Operator) in proportion to their respective Participating Interests among themselves.

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

ARTICLE 8 UNIT OPERATOR'S POWERS AND RIGHTS

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

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

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

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

8.5 Lien. Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Available Production, as security for payment of Costs and Lease Burdens chargeable to it, together with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs or Lease Burdens chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Available Production, up to the amount owing by such Party plus interest at the rate of 6% per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

8.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties payment in advance of their respective shares of the estimated amount of the Costs to be incurred in operations hereunder during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of six per cent (6%) per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

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

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

ARTICLE 9 UNIT OPERATOR'S DUTIES

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

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

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

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

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

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

F. Information. Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorization for expenditure or itemizations of estimated expenditures in excess of \$.....; (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, (4) samples of cores or cuttings taken from wells drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other or additional information or reports as may be Directed by the Parties in accordance with the provisions of Section 7.2 dealing with Voting Control;

G. Access to Unit Area. Permit each of the other Parties, through its duly authorized employees or agents, but at its sole risk and expense, to have access to the Unit Area at all times, and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment or other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

9.2 Insurance.

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

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

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

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

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

B. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that in the case of a well owned by less than all the Parties such taxes shall be charged to and borne by the Party or Parties owning such well in the same proportions that they share in the Available Production therefrom. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

C. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

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

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

**ARTICLE 10
LIMITATIONS ON UNIT OPERATOR**

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

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

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of..... Dollars (\$.....); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations or that are included in a budget Approved by the Parties, and (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

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

D. Settlement of Claims. Pay in excess of Five Hundred Dollars (\$500.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. Determinations. Make any of the determinations mentioned in Section 22 of the Unit Agreement, except as otherwise specified in this agreement.

**ARTICLE 11
TITLES**

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

11.2 Title Papers to Be Furnished Before Discovery.

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

B. Title Papers for Initial Test Well. Promptly after the effective date of this agreement each Party whose Committed Working Interests cover any land, any part of which is within an area of acres delineated by Unit Operator surrounding the location of the Initial Test Well, shall at its own expense furnish Unit Operator with the following title material relating to such land, or to the Committed Working Interests covering the same:

- (1) Abstracts of title based upon the county records certified to current date.
- (2) All Lease Papers, or photostatic copies thereof, mentioned in Section 11.2 A which the Party has in its possession, and which have not been previously furnished to Unit Operator.
- (3) Copies of any title opinions which the Party has in its possession.
- (4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office and the Washington, D. C., land office of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved.
- (5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state.
- (6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands and in the Bureau of Indian Affairs in Washington, D. C.

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

11.3 Title Committee. Promptly after the effective date of this agreement the Parties shall appoint a Title Committee which shall arrange for all title examinations herein provided for and shall distribute copies of title opinions to all Parties as soon as they are prepared.

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

11.5 Approval of Title. After a title examination has been completed and a reasonable time not exceeding thirty (30) days has been allowed for any necessary curative work, the Title Committee shall submit to each Party a report concerning the title examination, with written recommendation for approval or disapproval of the title to each Committed Working Interest involved. Each Party, within fifteen (15) days after receipt of such report and recommendation, shall notify each of the other Parties in writing whether it approves or disapproves title to the Committed Working Interests covered by the report. Any Party disapproving any title shall state the reasons therefor. If the Title Committee has unanimously recommended approval of the title to a Committed Working Interest a Party who does not so disapprove title thereto within said fifteen (15) day period shall be deemed to have approved such title. Title to a Committed Working Interest shall be deemed approved if and when approved as above provided by Parties

having per cent (.....%) of the total Participating Interest of all the Parties. Title to a Committed Working Interest which is not approved as above provided within the fifteen (15) day period above specified shall be deemed disapproved at the end of said period.

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

11.7 Effect of Disapproval of Title. If title to a Committed Working Interest is disapproved as above provided the Party claiming such interest may, within thirty (30) days after such disapproval, either (a) provide indemnity on such terms, in such amount and covering such period of time as may be specified by the other Parties or (b) undertake by written notice to all other Parties to make a bona fide effort to cure, within a period of time specified by the other Parties, the deficiencies on account of which title was disapproved. In the latter event the proceeds of all Unitized Substances accruing to such interest shall be paid to Unit Operator and held in suspense until title to such interest is approved, or until expiration of the time fixed for curing deficiencies in title to such interest. If either of said elections is made by the Party claiming such interest and title to such interest is not approved within the time specified as above provided, or if neither of said elections is made by such Party, the following provisions shall then apply:

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 12 INITIAL TEST WELL

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

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

ARTICLE 13 ADDITIONAL DRILLING AND DEEPENING OR PLUGGING BACK

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

(Note: The following Articles 14 are alternates. The Parties should strike the one they do not wish to use.)

ARTICLE 14 SUBSEQUENT TEST WELLS

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

14.2 Notice of Proposed Drilling. If this Section becomes effective any Party desiring to have a Subsequent Test Well drilled shall give all other Parties written notice, specifying the location, depth and the estimated cost of the proposed Subsequent Test Well. Such notice shall not create an obligation to Drill the proposed well, unless all other Parties agree to participate therein.

14.3 Response to Notice. Within thirty (30) days after receipt of such notice each Party shall advise all other Parties in writing whether or not it wishes to participate in Drilling the proposed well. If all the Parties so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling such proposed well.

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

14.5 Effect of Election to Drill. If all the Parties so elect to proceed Unit Operator shall Drill the proposed well for the account of all the Parties, but if one or more, but not all of the Parties, so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party. In either case Unit Operator shall commence operations for the drilling of the proposed well as promptly as reasonably possible after election to have the well Drilled. If Unit Operator is unable to begin Drilling the well prior to the termination date of the Unit Agreement, Unit Operator shall apply for an extension, but if unsuccessful will not be liable to the other Parties by reason of the termination of the Unit Agreement.

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

14.7 Obligation of Non-Drilling Party. Immediately after commencing operations for Drilling the proposed well Unit Operator shall give written notice thereof to each Non-Drilling Party. Within ten (10) days after receipt of such notice each Non-Drilling Party shall be obligated to elect and comply with one of the following options:

Option 1. Execute and deliver to the Drilling Party a good and sufficient assignment transferring to the Drilling Party any and all Committed Working Interests owned by it, together with its entire interest under this agreement, insofar as relates to all quarter-quarter sections of land (or equivalent lots) within the Unit Area which are contained in an approximately square area of _____ acres with such well in the approximate center thereof; or

Option 2. Execute and deliver to the Drilling Party a good and sufficient assignment transferring to the Drilling Party an undivided _____ per cent (_____ %) of all its Committed Working Interests, together with a like undivided _____ per cent (_____ %) of its interest under this agreement.

Whichever assignment is made by a Non-Drilling Party shall be made with warranty of title only against liens, encumbrances and claims created by it, other than Lease Burdens shown in Exhibit B to the Unit Agreement, upon the interest or interests so assigned.

14.8 Effect of Option 1 Assignment. An assignment made in accordance with Option 1 of Section 14.7 shall not effect any change in the Participating Interests or the Beneficial Interests of the Parties with respect to those lands in the Unit Area which are not covered by the assignment, but thereafter the lands covered by the assignment shall be deemed Segregated Lands and shall be subject to the provisions of Article 27 dealing with Segregated Lands.

14.9 Apportionment of Interests Assigned Under Option 2. If an assignment is made under Option 2 provided for in Section 14.7 to two or more Parties each shall be deemed to have acquired the Committed Working Interest and the interest under this agreement so assigned in the proportion that the Participating Interest of each assignee immediately prior to such assignment then bears to the total Participating Interests of all such assignees.

14.10 Effect of Option 2 Assignment. If any Non-Drilling Party executes an assignment in accordance with Option 2 of Section 14.7, the Participating Interests and Beneficial Interests of the Parties shall be revised accordingly, effective as of commencement of the proposed well, and Unit Operator shall make an appropriate revision in Exhibit B to the Unit Agreement. In addition (whether or not the land on which the well is drilled has become Segregated Lands by reason of execution of an assignment under Option 1 of Section 14.7), such Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its remaining operating rights and working interest in and to the proposed well. If the well is completed as a producer of Unitized Substances such remaining operating rights and working interest so relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Available Production from the well which would have accrued to its Beneficial Interest as revised, if the well had been Drilled for the account of all Parties (after

deducting from such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B) shall equal that portion of the Costs incurred in Drilling the well and operating it up to such time, which would have been charged to such Non-Drilling Party's Participating Interest as revised had the well been Drilled for the account of all Parties. From and after such reversion, such Non-Drilling Party shall (a) bear that percentage of all Costs thereafter incurred in operation of the well, and own that percentage of the well, the operating rights and Working Interest therein and the materials and equipment therein or appurtenant thereto, which is equal to its Participating Interest as revised and (b) own that percentage of the Available Production from the well which is equal to its Beneficial Interest as revised.

14.11 Rights and Obligations of Drilling Party Under Option 2. If any Non-Drilling Party executes an assignment in accordance with Option 2 of Section 14.7, all Costs incurred in Drilling the proposed well shall be borne by the Drilling Party and, subject to reversion to each such Non-Drilling Party of its relinquished interest, such well, the materials and equipment therein and the Available Production therefrom, shall be owned by the Drilling Party. If the Drilling Party includes two or more Parties:

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

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

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

14.12 Reconveyance of Assigned Interests. If for any reason the proposed well is not Drilled to the depth initially specified therefor, then, unless the well is completed at a lesser depth as a well productive of Unitized Substances in paying quantities, all Interests assigned by Non-Drilling Parties to the Drilling Party in accordance with Section 14.7 shall be reassigned to such Non-Drilling Parties without warranty of title except against liens, encumbrances and claims caused or created by the Drilling Party.

(Alternate)

ARTICLE 14

SUBSEQUENT TEST WELLS

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

14.2 Rights and Obligations of Drilling Party. If this Article becomes effective any Party or Parties desiring to have a Subsequent Test Well Drilled and shall have the right so to do by following the same procedure, subject to the same rights and obligations, as provided for in Article 16 dealing with Drilling After Discovery, except that for the purposes of this Article the percentage specified in subsection B of Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party shall be _____ per cent (_____%) instead of _____

_____ per cent (_____%).

ARTICLE 15

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

15.1 Proposal. Unit Operator shall initiate each proposal for the establishment, revision or consolidation of a participating area by submitting the proposal in writing to each Party at least fifteen (15) days before filing the same with the Director. The date of proposed filing must be shown on the proposal.

15.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If the Unit Operator does not agree with the objection the Party making the same may renew it before the Director.

15.3 Revised Proposal. If Unit Operator agrees with any objection it receives, it shall revise the proposal and submit the same to the Parties in the same manner as if it were an original proposal so that all Parties will have opportunity to object thereto.

ARTICLE 16

DRILLING AFTER DISCOVERY

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

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

16.3 Response to Notice. Within thirty (30) days after receipt of such notice each Party shall advise all other Parties in writing whether or not it wishes to participate in Drilling the proposed well. If all the Parties so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties. If any Party fails to respond to such notice within said thirty (30) day period it shall be deemed to have elected not to participate in drilling such proposed well.

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

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

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

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

such proceeds or market value a like portion of Lease Burdens paid in cash in respect of the Unitized Substances theretofore produced from the well and the taxes referred to in Section 9.3 B) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operation of the well up to such time which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Drilled for the account of all Parties; and

B.% of that portion of the Costs incurred in Drilling the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been Drilled for the account of all Parties.

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

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

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

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

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

ARTICLE 17 REQUIRED WELLS

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

17.2 Election to Drill. Any Party desiring to Drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period Unit Operator shall drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein; the rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Available Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 16 dealing with Drilling After Discovery.

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

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

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

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

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

ARTICLE 18 DEEPENING OR PLUGGING BACK

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

18.2 Notice and Response on Discontinuance of Production From Producing Well. If every Party then owning an interest in a well completed as a producer of Unitized Substances agrees in writing to discontinue operation of such well for production from each pool or zone in which it is then completed, Unit Operator shall give written notice thereof to all the Parties, except that such notice need not be given in the case of a well owned by all the Parties if every Party has consented in writing to abandonment and plugging of the well, or if every Party has agreed in writing to participate in Deepening or Plugging Back the well. If such notice is required, any Party proposing to Deepen or Plug Back such well shall, within twenty (20) days after receipt of the notice given by Unit Operator, so advise all other Parties in writing, stating the projected depth of the Deepening or Plugging Back and the estimated cost thereof. If such proposal is so made, each of the other Parties who desires to participate therein shall so advise all other Parties in writing within thirty (30) days after receipt of the proposal. Any Party or Parties then electing to proceed with the Deepening or Plugging Back shall give Unit Operator written notice thereof within fifteen (15) days after expiration of said period of thirty (30) days.

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

18.4 Notice and Response on Well Not Completed as Producer. After a well Drilled hereunder has been drilled to its projected depth, but not completed as a producer, if abandonment of the well is Directed by the Party or Parties for whose account the well was Drilled, or if, in the absence of such Direction, Unit Operator decides to abandon such well, Unit Operator shall so notify all the Parties by telephone or telegram, except that such notice need not be given if the well was Drilled for the account of all the Parties, and every Party consents to abandonment and plugging of the well. If such notice is required, each Party electing to proceed with the Deepening or Plugging Back of the well shall so notify Unit Operator by telegram or by written notice delivered to Unit Operator within forty-eight (48) hours after

receipt of the notice given by Unit Operator. Likewise, if any Party desires to attempt to complete such well as a producer of Unitized Substances at its then depth, such Party shall have the right so to do by giving like notice to Unit Operator of its election to proceed with such completion attempt, in which event such completion attempt shall be deemed a Deepening or Plugging Back operation for the purposes of this Article.

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

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

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

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

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

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

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

provided, however, that if such Non-Drilling Party did not, and the Drilling Party did, participate in the initial Drilling of the well and if the interest relinquished by it in connection therewith in accordance with Section 16.7 dealing with Relinquishment of Interests by Non-Drilling Party had not reverted to it before such Deepening or Plugging Back, then for the purposes of Subdivision B above there shall be included in and deemed part of the Costs incurred in the Deepening or Plugging Back that portion (if any) of the unrecovered Costs incurred in the initial Drilling of the well which would have been charged to such Non-Drilling Party's Participating Interest if the well had been initially Drilled for the account of all the Parties; and provided further, that if the well is within a previously established participating area and is Deepened or Plugged Back to a pool or zone for which such participating area was established, after obtaining the Approval of the Parties as above provided, then the amount specified in Subdivision B above shall be limited to 100% of that portion of the unrecovered Costs incurred in the initial Drilling of the well down to such pool or zone that would have been chargeable to such Non-Drilling Party's Participating Interest had the well been Drilled for the account of all the Parties.

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

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

ARTICLE 19

SEPARATE MEASUREMENT AND SALVAGE

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

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

ARTICLE 20

PLANS OF DEVELOPMENT

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

20.2 Notice of Proposed Plan. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

20.3 Notice of Approval or Disapproval. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In case of disapproval Unit Operator shall state in such notice the reasons therefor.

20.4 Amendments. If a Drilling, Deepening or Plugging Back operation which is authorized by all the Parties, or which any of the Parties have elected to perform in accordance with Article 16 dealing with Drilling After Discovery or Article 17 dealing with Required Wells or Article 18 dealing with Deepening or Plugging Back is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

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

ARTICLE 21

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

21.1 Consent Required. Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of not less than _____ Parties in the aggregate owning not less than _____

per cent (____%) of the Participating Interests of all Parties.

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

ARTICLE 22

DISPOSITION OF PRODUCTION

22.1 Taking in Kind. Each Party shall, currently as produced, take in kind or separately dispose of its share of Available Production and pay Unit Operator for any extra expenditure necessitated thereby. Each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of all Available Production, and on all purchases or sales, each Party shall execute any division order or contract of sale pertaining to its share of Available Production.

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

ARTICLE 23

DISPOSAL OF MATERIALS AND EQUIPMENT

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

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

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

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

ARTICLE 24

TRANSFERS OF INTEREST

24.1 Partial Transfer. No Party shall assign, mortgage or transfer less than its entire Committed Working Interest and its entire interest under this agreement without first obtaining the Approval of the Parties; provided, however, that after the Drilling of the Initial Test Well or Wells and prior to discovery of Unitized Substances in paying quantities any Party shall have the right, without obtaining the Approval of the Parties, to transfer a portion of its Committed Working Interest under a farmout arrangement, in consideration of the Drilling of a well within the Unit Area free of expense to the other Parties, but only if the well, if completed as a producer of Unitized Substances, will be owned and the Available Production therefrom will be shared by all the Parties in the same manner as if the well had been Drilled for the account of all the Parties, including such transferee.

24.2 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in Section 6 of the Unit Agreement.

24.3 Assumption of Obligations. No Party shall make any transfer of Committed Working Interests without making the same expressly subject to the Unit Agreement and this agreement and requiring the transferee in writing to assume and to agree to perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

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

(Note: The following Section should be stricken if not desired by the Parties.)

24.5 Preferential Right of Purchase. Before any Party makes a sale of all or any part of its Committed Working Interest it shall give to the other Parties written notice describing the Committed Working Interest proposed to be sold and stating the price at which and the terms upon which such Party is willing to sell the same. For a period of fifteen (15) days after receipt of such notice the other Parties shall have the right to purchase the interest proposed to be sold at the same price and upon the same terms as stated in said notice, which right may be exercised only by written notice given to the selling Party within the said period of fifteen (15) days. If said right is exercised by any of the Parties, the obligation to purchase shall be subject to title to such interests being found to be merchantable in the selling Party and a reasonable time shall be allowed for examination of title thereto. Upon approval of title the selling Party shall convey such interests to the purchasing Party or Parties who shall thereupon pay to the selling Party the purchase price specified therefor; if two or more Parties have

elected to purchase such interest, the purchase shall be made by them in proportion to their Participating Interests among themselves. If no Party exercises said right of purchase within said fifteen (15) day period, as above provided, the selling Party shall be free to sell the Committed Working Interest described in its notice to any other purchaser provided the sale is consummated within ninety (90) days after the giving of the initial notice of proposal to sell and for a price no lower and terms no less favorable to the selling party than the price and terms specified in such initial notice. Such interests shall not be sold after the expiration of said period of ninety (90) days or for any lower price than said specified price without written notice to the other Parties as hereinabove provided.

The provisions of this Section 24.5 shall not apply to:

- A. The mortgage by any Party of all or any part of its Committed Working Interest; or
- B. To the transfer by any corporate Party of all or any part of its Committed Working Interest to its parent corporation or to a subsidiary corporation or to a corporation which is the subsidiary of its parent corporation; or
- C. The sale by any Party of all or substantially all of its oil and gas properties within the state in which the Unit Area is located; or
- D. A farmout arrangement made pursuant to the provisions of Section 24.1 dealing with Partial Transfer.

ARTICLE 25

ABANDONMENT OF PRODUCING WELLS

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

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

25.3 Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Available Production therefrom and shall bear all Lease Burdens and Costs thereafter incurred in operating the well and plugging it when abandoned, and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

25.4 Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interest therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties at the value fixed therefor in accordance with Section 25.2. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator in connection with such well in accordance with Section 18.2 dealing with Notice and Response on Discontinuance of Production from Producing Well.

ARTICLE 26

SURRENDER

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

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

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

26.4 Procedure on Surrender Outside Participating Area. Whenever a Party desires that a Committed Working Interest of any Party covering lands outside a participating area be surrendered, whether or not legal title to such Committed Working Interest is owned by the Party desiring such surrender, such Party shall give to all other Parties written notice thereof, describing such Committed Working Interest. The other Parties, or any of them, shall have the right at their option to take from the Party desiring the surrender an assignment of the entire interest (if any) of such Party in such Committed Working Interest and, subject to such Party's rights under Section 26.5, its entire interest under this agreement insofar as relates to the land covered by such Committed Working Interest, by giving to the Party desiring the surrender written notice of election so to do within thirty (30) days after receipt of such notice. If such election is made within said period the Party or Parties taking the assignment shall pay to the assigning Party its share of the Salvage Value of any salvable materials and equipment owned by the Parties and then located on the land covered by such Committed Working Interest, less the reasonably estimated cost of plugging any well or wells located on such land in which the assigning Party then has an interest, such payment to be made on receipt of an assignment from the assigning Party of its said interest. If no Party elects to take such assignment within such thirty (30) day period the Parties shall cooperate in an effort to contract the Unit Area by exclusion of the land covered by such Committed Working Interest. If such contraction is not effected within thirty (30) days after expiration of the time limited for election to take an assignment as above provided then the Parties shall be deemed to have approved surrender of such Committed Working Interests and the Party or Parties owning legal title to such Committed Working Interests shall forthwith surrender it if surrender thereof can be made in accordance with Section 31 of the Unit Agreement.

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

26.6 Accrued Obligations. An assignment or surrender in accordance with this Article shall not relieve any Party of its liability for any obligation accrued hereunder prior to such assignment or surrender, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to such assignment or surrender.

ARTICLE 27 SEGREGATED LANDS

27.1 Exclusion From Agreement. Whenever any lands within the Unit Area become Segregated Lands in accordance with Section 14.8 dealing with Effect of Option 1 Assignment or Section 26.5 dealing with Effect of Assignment or Surrender, such lands shall cease to be subject to this agreement but shall remain subject to the Unit Agreement.

27.2 Interests of Parties in Assigned Lands. Upon the making of an assignment referred to in Section 14.8 or Section 26.5, the assigning Party shall cease to have any interest in the lands which become Segregated Lands by reason thereof. Insofar as relates to such Segregated Lands, the Participating Interest and the Beneficial Interest of the assigning Party shall be deemed to have been transferred to and acquired by the Party or Parties receiving such assignment, each of whom (if more than one) shall be deemed to have acquired such interests so assigned in the proportion that its Participating Interest immediately prior to such assignment then bears to the total Participating Interests of all assignees. In addition, each Party retaining an interest in such segregated lands shall retain the same Participating Interest and Beneficial Interest therein as it had immediately prior to such assignment.

27.3 Operation of Lands Segregated by Assignment. All operations on lands which become Segregated Lands by reason of assignment pursuant to Sections 14.8 and 26.5 shall be conducted by Unit Operator for the account and at the expense of the Party or Parties retaining interests therein. Unless otherwise agreed between Unit Operator and such Party or Parties, their respective rights and obligations with respect to such Segregated Lands shall be the same in all respects as if Unit Operator and such Party or Parties had entered into an agreement identical with this agreement but covering only such Segregated Lands, except that if two or more Parties retain interests in the Segregated Lands, the Participating Interest and the Beneficial Interest of each shall be determined in accordance with Section 27.2.

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

ARTICLE 28 CONTRACTION OR EXPANSION OF UNIT AREA

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

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

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

ARTICLE 29 SEVERAL, NOT JOINT LIABILITY

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

29.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

ARTICLE 30 NOTICES

30.1 Giving and Receipt. Except as otherwise specified herein, any notice, consent, Approval, Direction or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 7.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph, properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

30.2 Proper Addresses. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 31 EXECUTION IN COUNTERPARTS AND RATIFICATION

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

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

ARTICLE 32 SUCCESSORS AND ASSIGNS

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

ARTICLE 33 HEADINGS FOR CONVENIENCE

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

ARTICLE 34
EFFECTIVE DATE AND TERM

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

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

34.3 **Effect of Termination.** Termination of this agreement shall not relieve any Party of its obligations accrued hereunder before such termination. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

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

ARTICLE 35
SUBSEQUENT JOINDER

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

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

ARTICLE 36
WITHDRAWAL OF TRACTS

36.1 **Restriction.** No Party shall withdraw a tract from the Unit Area except with the written Approval or Direction of the Parties.

36.2 **Required Withdrawal.** If the owner of any substantial Lease Burden in a tract within the Unit Area fails to join in the Unit Agreement, upon Direction of the Parties in writing such tract shall be withdrawn from the Unit Area in accordance with Section 29 of the Unit Agreement, provided the time for such withdrawal has not expired. In such event if any Party or Parties owning a Committed Working Interest in such tract provide such indemnity as may be approved in writing by all other Parties, the Party or Parties owning Committed Working Interest in such tract shall not be required to withdraw it from the Unit Area.

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

ARTICLE 37
RIGHT OF APPEAL

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

ARTICLE 38
OTHER PROVISIONS

Other provisions, if any, are:

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

Date of Execution: _____
Address: _____
By _____ President
ATTEST: _____ Secretary

As Unit Operator and Working Interest Owner

Date of Execution: _____
Address: _____
By _____ President
ATTEST: _____ Secretary

Date of Execution: _____
Address: _____
By _____ President
ATTEST: _____ Secretary

Working Interest Owners

EXHIBIT " C "

Attached to and made a part of _____

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

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

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- () Fixed Rate Basis, Paragraph 1A, or
- () Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not () be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ _____
Producing Well Rate \$ _____

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction TO BE NEGOTIATED

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ _____:

- A. _____ % of total costs if such costs are more than \$ _____ but less than \$ _____; plus
- B. _____ % of total costs in excess of \$ _____ but less than \$1,000,000; plus
- C. _____ % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated _____ by and between _____ as OPERATOR, and _____ as NON-OPERATORS.

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provision of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or order, this contract may be cancelled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions

will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

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

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

- (1) Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.
- (2) Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.
- (3) Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. } 1001.

III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000 or more or which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

- (1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.
- (2) The contractor agrees to place the above provision in any subcontract directly under this contract."

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

- (1) No facility to be utilized by Subcontractor in the performance of this contract with Exxon is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR § 15.20.
- (2) Prompt written notification shall be given by Subcontractor to Exxon of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.
- (3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. § 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. § 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.
- (4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR § 15.4 & 5.