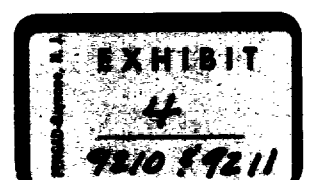


UNIT OPERATING AGREEMENT
TWIN LAKES SAN ANDRES
CHAVES COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT - TWIN LAKES SAN ANDRES UNIT

CHAVES COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1987, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H :

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement for the Development and Operation of the Twin Lakes San Andres Unit, Chaves County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners pertaining to the development and operation of the Unit Area as therein defined;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT AND ADOPTION OF DEFINITIONS

1.1 Confirmation of Unit Agreement. The Unit Agreement and all exhibits attached thereto or any revisions thereof are hereby confirmed and by reference made a part of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern, except as otherwise provided in Article 12 hereof.

1.2 Adoption of Definitions. The definitions in the Unit Agreement and the following additional definitions are adopted for all purposes of this agreement:

(a) "Unit Operations" is defined as all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

(b) "Unit Equipment" is defined as all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(c) "Unit Expense" is defined as all cost, expense or

indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement as well as all necessary pre-unitization costs or expenses incurred for or on account of Unit Operations.

(d) "Tract Operator" is defined as the respective operator of each tract within the Unit Area prior to unitization.

ARTICLE 2 EXHIBITS

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

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

2.1.2 Exhibit "D", attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract listed in Exhibit "C", the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit "D", or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participation of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

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

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

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

ARTICLE 3 SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in

its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

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

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

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

3.2.3 Change of Well Status. The abandonment or the conversion of any producing well to an injection well or to a well to be used for any purpose other than production of Unitized Substances.

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty Thousand Dollars (\$20,000.00), subject, however, to the provisions of Section 7.9 hereof; provided, that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.

3.2.5 Disposition of Unit Equipment. The Unit Operator shall have the right to sell or otherwise dispose of any item of surplus Unit Equipment.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of Unit Operator to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided, however, that Working Interest Owners shall in the event Unit Operator is unable to appear designate an alternate representative; and provided, further, that such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

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

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

(b) be made upon the approval of the Owner or Owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, or;

(c) be made at the expense of those Working Interest owners requesting such audit if owners of less than a majority of Working Interest, other than that of Unit Operator, request such audit, and;

(d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit "E".

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel in excess of \$5000.00 and not covered by the overhead charges provided by Exhibit "E".

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

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The expansion of the Unit.

3.2.13 The adjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Not later than thirty (30) days after the effective date hereof, each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total voting interest of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of seventy-five percent (75%) or more of the voting interest, said voting interest to include two or more Working Interest

Owners.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner.

Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the actual vote taken at such meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such vote to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

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

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Pelto Oil Company is hereby designated as Unit Operator.

6.2 Resignation or Removal - Selection of Successor. The resignation or removal of Unit Operator and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and shall be obligated to develop and operate the Unit Area for the production of Unitized Substances.

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

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

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

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

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

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Thousand Dollars (\$20,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

7.11 Border Agreements. The Unit Operator, with the approval by formal vote of seventy-five percent (75%) of the Working Interest Owners, may enter into a border protection agreement or agreements with Working Interest Owners of the adjacent lands along the exterior boundary of the Unit Area with respect to any cooperative operations in the border area for the proper protection of the parties and interests.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning with the first calendar year after the Unit Agreement becomes effective, make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account.

8.2 Other Taxes. Unit Operator shall pay or cause to be paid on behalf of each Working Interest Owners all production, severance, gathering, and other taxes imposed upon or in respect of the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

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

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

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

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

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation, together with the casing therein.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, all subsurface equipment therein including sucker rods and pumps, the wellhead connections thereon, and all other well and lease equipment that is used in the operation of such wells which Unit Operator determines is necessary or desirable for conducting Unit Operations. Unit Operator shall have up to six (6) months after the effective date in which to make such determination, and all such property that is determined to be surplus shall be returned in the same condition less usual depreciation to each Tract Operator who was responsible for delivery same to Unit Operator. There shall be no charge to the Unit for the use of any such surplus property during this six (6) month period. The individual Tract Operators shall have ninety (90) days from the date of notification in which to remove the surplus property returned to them. Surplus property shall then be disposed of by each Tract Operator in accordance with the respective joint operating agreement which governs each Tract. If the surplus property has not been removed from the Unit Area within the ninety (90) day period, then Unit Operator shall have the right to dispose of the property in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Any proceeds received upon disposition, in excess of removal and clean-up costs, will be disbursed to the Working Interest Owners in the specific Tract. Any costs in excess of proceeds received upon disposition will be charged to the Working Interest Owners in the specific Tract.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. The Working Interest Owners shall appoint an inventory committee which shall, as of the effective date hereof or as soon thereafter as feasible, cause to be taken under the supervision of the Unit Operator at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder.

In the absence of an inventory committee Unit Operator shall engage at Unit Expense a qualified independent firm to serve in place of an inventory committee. Such inventories shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties except that certain items of equipment normally considered noncontrollable, such as sucker rods, subsurface pumps and other items as determined by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investment. All other noncontrollable items of lease and well equipment installed within the Unit Area, although excluded from the inventories, which the Unit Operator decides are necessary and usable in Unit Operations, shall nevertheless be taken over by the Unit Operator. After the determination by Unit Operator as to surplus property, such inventories covering equipment taken over by the Unit Operator under Subsection 10.1.2 and retained for Unit Operations, shall be priced in accordance with the provisions of Exhibit "E", Accounting Procedure, attached hereto and made a part hereof, or at an appraised value as determined by the inventory committee; such pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with the inventory committee furnishing such additional pricing help as may be available and necessary. Casing shall be included in the inventory for record purposes but shall be excluded from pricing and investment adjustment.

10.3. Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, investments shall be adjusted as follows:

10.3.1 Initial Adjustment of Investments. Each Working Interest Owner shall be credited with the value, as determined in accordance with Section 10.2 above, of its interest in all personal property taken over by Unit Operator under Section 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit Participation, as shown on Exhibit "C". If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4. General Facilities. The acquisition of general facilities which service more than one lease and which are necessary for Unit Operations

shall be by negotiation between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto. General facilities which are owned one-hundred percent (100%) by the Unit Operator shall be acquired by negotiation between the Unit Operator and the Working Interest Owners. General facilities owned one-hundred (100%) by the Unit Operator and which are deemed to be necessary for Unit Operations are listed as follows:

(a) General Facilities Located Within the Unit Area

Warehouse Building and Yard
Office Building and furnishings
Warehouse Stock (Including Tools)
Shop Building
Lease Automatic Custody Transfer (L.A.C.T.)
Rolling Stock
Communication Equipment

(b) General Facilities Located Outside the Unit Area

Natural Gas Pipeline - Approximately three and four-tenths (3.4) miles of polymer pipeline with a starting point at the outlet of the compressor station and extending to a tie-in with a pipeline owned by Stevens Operating Corporation.
Source Water System - The source water system has not been constructed. The planned system consists of existing Ogalla water rights acquired by Unit Operator in addition to two wells, pump sites and rights-of-way from the water source to Twin Lakes Field. Such system will pipe water a distance of approximately 27 miles. As soon as practicable following the effective date hereof, Unit Operator will submit an AFE to construct the source water system for approval by the Working Interest Owners.

10.5 Exchange of Interest in and Ownership of Personal Property and Facilities. Each Working Interest Owner hereby exchanges, and agrees to exchange, its interest in all of the personal property and facilities described in Section 10.1.2 above for its proportionate interest, as shown on Exhibit C, from and after the time the same may hereafter become effective, in all such personal property and facilities described in Section 10.1.2. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11
DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in Unit Operations including all pre-unitization expenses required for organization and/or formation of the unit. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense in proportion to the respective Unit Participation of the parties hereto. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E".

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

11.3 Advance Billings. Unit Operator shall have the right without prejudice to any other rights or remedies, at its option to require Working Interest Owners to advance their respective proportions of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding two months with a request for payment in advance. If such advance is requested as to operating costs and expenses, the Working Interest Owners' proportionate shares thereof shall be deemed to be the same as for the preceding month, with an adjustment to be made on the basis of their actual proportionate shares thereof as determined at the end of the period for which such advance was requested. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien of Unit Operator. Effective as of the date this Unit Operating Agreement is filed for record in Chaves County, New Mexico, each Working Interest Owner grants to Unit Operator a lien upon its Working Interest in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense to the full extent allowed by State and Federal Statues,

together with interest thereon at the prime rate charged by Chase Manhattan Bank of New York plus two percent (2%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

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

11.7 Rentals and Minimum Royalties. The Working Interest Owner in each Tract shall, at its own expense, pay any and all rentals required to continue its lease in force, and any and all minimum royalties payable thereunder. Upon request of Unit Operator, each such Working Interest Owner shall furnish Unit Operator satisfactory evidence as to the payment of each such rental not less than thirty (30) days prior to the rental payment date and as to the payment of such minimum royalty payment when same is due. Unit Operator shall have the right, but shall be under no obligation, to pay any and all such rentals and minimum royalties on behalf of each such Working Interest Owner, and any and all amounts so paid by Unit Operator shall be charged solely to the account of such Working Interest Owner. In the event the Working Interest Owner in any Tract fails to pay any rental required to continue its lease in force as to such Tract or any minimum royalties payable under such lease and as a result said lease terminates or is cancelled as to such Tract, the termination or

cancellation of said lease as to such Tract shall be considered for all purposes of this agreement and the Unit Agreement to be a failure of title to said lease for reasons other than Unit Operations.

ARTICLE 12

OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this agreement or the Unit Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with Unit operations hereunder. No Working Interest Owner (other than Unit Operator) shall produce Unitized Substances through any well within the Unit Area drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected during drilling operations by a drilling fluid satisfactory to Unit Operator, and following drilling operations, the Unitized Formation shall be protected by cement or by casing and cement and shall otherwise be protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected.

12.2 Multiple Completions. No well now or hereafter completed in Unitized Formation shall ever be completed as a multiple completion with any other formation or formations without the unanimous consent of Working Interest Owners.

ARTICLE 13

TITLES

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

ARTICLE 14
LIABILITY, CLAIMS AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Seven Thousand Five Hundred Dollars (\$7,500.00) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Unit Operator shall notify Working Interest Owners and shall continue handling the claim or suit unless such authority is expressly denied by Working Interest Owners after notification. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15
INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or by the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to

execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax laws of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by it from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, ("transferees"), all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the instrument of transfer; however, the tender has to be accepted unless Working Interest Owners decide within ninety (90) days to terminate the Unit. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations in effect. The transferees, in proportion to the respective interest so acquired, shall pay transferor for its interest in Unit Equipment the net salvage value thereof as determined by Working Interest Owners. In the event such withdrawing party's interest in the aforesaid fair salvage value after deducting the estimated cost of salvaging same is less than the withdrawing

party's share of estimated cost of plugging and abandoning the wells then being used or held for Unit Operations, then as condition precedent to its withdrawal, the withdrawing party shall pay in cash to the succeeding to its interest a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

INTEREST CARVED OUT BY WORKING INTEREST OWNER

18.1 Carved-out Interest Subject to This Agreement. In the event any Working Interest Owner shall, after this Agreement becomes effective or after executing this agreement, whichever is earlier, create an overriding royalty, production payment, net profits, or carried interest, or any other interest out of its Working Interest then subject to this agreement, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof, entitled "Lien of Unit Operator". In the event the Working Interest Owner creating such carved-out interest (i) fails to pay any costs or expenses chargeable to such Working Interest Owner under this agreement and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (ii) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a prorata portion of all costs and expenses incurred hereunder and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in said Section 11.5 for the purpose of collecting the costs and expenses chargeable to said carved-out interest.

ARTICLE 19

ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the

Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the salvage value of the casing and equipment in and on the well, except the casing therein if casing and equipment in and on the well, except the casing therein if contributed by such Working Interest Owners of the Tract under Section 10.1.1, less salvage costs. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 20

EFFECTIVE DATE AND TERM

20.1 Effective Date. This agreement shall be binding on each party who executes or ratifies the same as of the date of execution or ratification by such party, but shall not become effective for the purpose of conducting Unit Operations hereunder until the effective date of said Unit Agreement, which date shall also be the effective date of this agreement.

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

ARTICLE 21

ABANDONMENT OF OPERATIONS

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

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

21.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, except the casing therein if contributed by such Working Interest Owners under Section 10.1.1 less salvage costs as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

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

21.1.4 Cost of Salvaging & Distribution of Assets. Working Interest Owners shall share the cost of salvaging and abandonment as well as distribution of assets and properties used in Unit Operation in proportion to their respective Unit Participations.

ARTICLE 22

EXCISE TAX PROVISIONS

22.1 Crude Oil Excise Tax. For the period during which excise taxes are payable under the Crude Oil Windfall Profit Tax Act of 1980 on any party's Unitized Substances, the first crude oil allocated to any Tract after distribution of any incremental stripper crude as hereinafter provided shall be the tax tier type of crude oil actually produced or considered to have been produced during the base period under I.R.C. regulations but not to exceed its Tract Participation share or the amount of such tax tier type of crude oil currently available. Any excess of a tax tier type of crude oil currently available. Any excess of a tax tier type of crude oil existing after the foregoing specific identification allocation shall be allocated to the remaining Tracts in the unit which have an underallocation of crude oil in proportion to the amount of their relative underallocations of crude oil. Anything hereinabove notwithstanding, any incremental stripper oil as defined under I.R.C. Section 4993 shall be allocated to each Tract in accordance with its Tract Participation prior to any other allocation of tax tier type of crude oil under this Article 21.1. In no case shall the sum of the different tax tier types of crude oil allocated to any Tract exceed the total amount of crude oil allocable under its Tract Participation.

ARTICLE 23
EXECUTION

23.1 Execution by Separate Counterparts or Ratifications. This agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument and as if all parties to the aggregate counterparts had signed the same instrument, or may be ratified by a separate instrument in writing referring to this agreement, each such ratification having the force and effect of an executed counterpart hereof and in effect incorporating by reference all of the provisions hereof.

ARTICLE 24
SUCCESSORS AND ASSIGNS

24.1 Successors and Assigns. This agreement shall constitute a covenant running with the lands and leases covered hereby, and shall be binding upon and inure to the benefit of the heirs, devisees, legal representatives, successors, and assigns of the parties hereto, respectively. Each assignment or other transfer of Working Interest by any party hereto shall be made expressly subject to this agreement and shall provide expressly that the transferee shall assume and be bound by all obligations accruing hereunder in respect to the Working Interest transferred from and after the assignment or other transfer.

24.2. Notice of Transfer. An assignment or other transfer of Working Interest that is subject to this agreement shall not be binding upon Unit Operator and shall not relieve the transferor of obligations accruing hereunder, until the first day of the calendar month next succeeding receipt by Unit Operator of written notice of such assignment or transfer accompanied by certified copy of the recorded instrument evidencing the transfer.

24.3 Six or More Owners. In the event that any Tract or Tracts subject to this agreement is owned or hereafter becomes owned by six (6) or more Working Interest Owners, then, in such event, said Working Interest Owners agree, upon request, to furnish Unit Operator with a recordable instrument executed by all such Working Interest Owners designating an agent to receive and be responsible for all costs, expenses, and credits related to Unit Operations and attributable to all such Working Interest Owners.

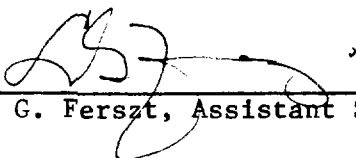
25.1 Governmental Regulations. Working Interest Owners agree to release Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of rules,

regulations or orders of any governmental agency or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Working Interest Owners further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with their proportionate part of interest and penalties owing by Unit Operator as a result of such incorrect interpretation or application of such rules, ruling, regulations or orders.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates opposite their respective signatures.

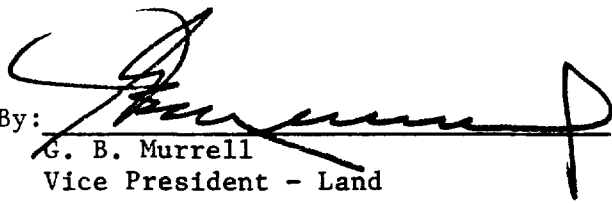
UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:



L. G. Ferszt, Assistant Secretary
Date Executed: August 4, 1987

PELTO OIL COMPANY

By: 

G. B. Murrell
Vice President - Land
Address: One Allen Center, Suite 1800
500 Dallas Street
Houston, Texas 77002

OTHER WORKING INTEREST OWNERS

ATTEST:

By: _____

Its: _____
Date Executed: _____ Address: _____

ATTEST:

By: _____

Its: _____

Date Executed: _____

Address: _____

J47/5

TLFARID.WR1
9-1-87

EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT 1 BOPD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)
1	CITGO STATE 1	POC TRINIDAD PETROLEUM CORP HARBERT ENERGY CORP, AGENT COMM. OF PUBLIC LANDS H LEE HARVARD (BORN BY TRINIDAD & HARBERT ONLY)	WI WI WI RI OR	0.51500000 0.20989870 0.27510130	0.45062500 0.17933350 0.23504150 0.12500000 0.01000000	0.0160189 0.0160189 0.0160189 0.0160189 0.0160189	0.0082497 0.0033623 0.0044068 0.0000000 0.0000000	0.0072185 0.0028727 0.0037651 0.0020024 0.0001602
2	CITGO STATE 2 & 6	POC COMM. OF PUBLIC LANDS CITIES SERVICE	WI RI OR	1.00000000	0.79296880 0.12500000 0.08203120	0.0057700 0.0057700 0.0057700	0.0057700 0.0000000 0.0000000	0.0045754 0.0007213 0.0004733
3	CITGO STATE 3	POC TRINIDAD PETROLEUM CORP HARBERT ENERGY CORP, AGENT COMM. OF PUBLIC LANDS CITIES SERVICE	WI WI WI RI OR	0.75750000 0.10494940 0.13755060	0.58706250 0.08133580 0.10660170 0.12500000 0.10000000	0.0008767 0.0008767 0.0008767 0.0008767 0.0008767	0.0006641 0.0000920 0.0001206 0.0000000 0.0000000	0.0005147 0.0000713 0.0000935 0.0001096 0.0000877
4	CITGO STATE 4,5,7	POC W G STROECKER MARION WEEKS B & R WINTHER COMM. OF PUBLIC LANDS CITIES SERVICE	WI WI WI WI RI RI OR	0.84250000 0.07500000 0.07500000 0.00750000	0.65293750 0.05812500 0.05812500 0.00581250 0.12500000 0.10000000	0.0218646 0.0218646 0.0218646 0.0218646 0.0218646 0.0218646	0.0184209 0.0016398 0.0016398 0.0001640 0.0000000 0.0000000	0.0142762 0.0012709 0.0012709 0.0001271 0.0027331 0.0021865
5	CITGO A STATE 1	POC COMM. OF PUBLIC LANDS CITIES SERVICE ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI RI OR OR OR OR	1.00000000	0.79296880 0.12500000 0.05203120 0.00500000 0.00500000 0.02000000	0.0040045 0.0040045 0.0040045 0.0040045 0.0040045 0.0040045	0.0040045 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0031754 0.0005006 0.0002084 0.0000200 0.0000200 0.0000801
6	CITGO A STATE 2	POC TRINIDAD PETROLEUM CORP COMM. OF PUBLIC LANDS ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI WI RI OR OR OR	0.50000000 0.50000000	0.42250000 0.42250000 0.12500000 0.00500000 0.00500000 0.02000000	0.0122048 0.0122048 0.0122048 0.0122048 0.0122048 0.0122048	0.0061024 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0051565 0.0015256 0.0000610 0.0000610 0.0002441 0.0122048

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EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT PARTICIPATION 1 BOPD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)
7	CITGO A STATE 3	POC TRINIDAD PETROLEUM CORP HARBERT ENERGY CORP, AGENT COMM. OF PUBLIC LANDS ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI WI WI RI OR OR OR	0.51500000 0.20989870 0.27510130	0.43517500 0.17736440 0.23246060 0.12500000 0.00500000 0.00500000 0.02000000	0.0186278 0.0186278 0.0186278 0.0186278 0.0186278 0.0186278 0.0186278	0.0095933 0.0039100 0.0051245 0.0000000 0.0000000 0.0000000 0.0000000	0.0081064 0.0033039 0.0043302 0.0023285 0.0000931 0.0000931 0.0003726
8	CITGO A STATE 5	POC HARBERT ENERGY CORP, AGENT COMM. OF PUBLIC LANDS ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY H LEE HARVARD	WI WI RI OR OR OR OR	0.52500000 0.47500000	0.44362500 0.39137500 0.12500000 0.00500000 0.00500000 0.02000000 0.01000000	0.0144380 0.0144380 0.0144380 0.0144380 0.0144380 0.0144380 0.0144380	0.0075800 0.0068580 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0064051 0.0056507 0.0018048 0.0000722 0.0000722 0.0002888 0.0001444
9	CITGO A STATE 6,7,8	POC W G STROECKER MARION WEEKS B & R WINTHER COMM. OF PUBLIC LANDS CITIES SERVICE ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI WI WI WI RI OR OR OR OR	0.84250000 0.07500000 0.07500000 0.00750000	0.65293750 0.05812500 0.05812500 0.00581250 0.12500000 0.07000000 0.00500000 0.00500000 0.02000000	0.0476502 0.0476502 0.0476502 0.0476502 0.0476502 0.0476502 0.0476502 0.0476502 0.0476502	0.0401453 0.0035738 0.0035738 0.0003574 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0311126 0.0027697 0.0027697 0.0002770 0.00059563 0.0033355 0.0002383 0.0002383 0.0009530
10	STATE CH 1	POC COMM. OF PUBLIC LANDS CITIES SERVICE ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI RI OR OR OR OR	1.00000000	0.80531250 0.12500000 0.05468750 0.00250000 0.00250000 0.01000000	0.0001050 0.0001050 0.0001050 0.0001050 0.0001050 0.0001050	0.0001050 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0000846 0.0000131 0.0000057 0.0000003 0.0000003 0.0000011
10A	STATE CH 2	POC COMM. OF PUBLIC LANDS CITIES SERVICE ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI RI OR OR OR OR	1.00000000	0.80531250 0.12500000 0.05468750 0.00250000 0.00250000 0.01000000	0.0025428 0.0025428 0.0025428 0.0025428 0.0025428 0.0025428	0.0025428 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0020477 0.0003179 0.0001391 0.0000064 0.0000064 0.0000254

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EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT 1 BOFD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)
11	STATE CH 3	POC W G STROECKER MARION WEEKS B & R WINTHER COMM. OF PUBLIC LANDS CITIES SERVICE ROBERT L HAYNIE LEN MAYER GEORGE E CONLEY	WI WI WI WI RI OR OR OR	0.84250000 0.07500000 0.07500000 0.00750000	0.67847580 0.06039840 0.06039840 0.00603990 0.12500000 0.05468750 0.00250000 0.00250000 0.01000000	0.0030963 0.0030963 0.0030963 0.0030963 0.0030963 0.0030963 0.0030963 0.0030963 0.0030963	0.0026086 0.0002322 0.0002322 0.0000232 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0021008 0.0001870 0.0001870 0.0000187 0.0003870 0.0001693 0.0000077 0.0000077 0.0000310
12	O'BRIEN B 2	POC MARSHALL & WINSTON MODN CO. J T WYMAN TRUST P W PARKER TRUST FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST EM NOMINEE PTSP CO FRATES SEELIGSON	WI RI RI RI RI RI RI RI RI RI RI NPRI	1.00000000	0.85937500 0.00585940 0.08203130 0.00292970 0.00292970 0.00585940 0.00292970 0.00146480 0.00146480 0.02343750 0.01171870	0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594 0.0005594	0.0005594 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0005594	0.0004807 0.0000033 0.0000459 0.0000016 0.0000016 0.0000033 0.0000016 0.0000008 0.0000008 0.0000131 0.0000066
13	O'BRIEN C #2,3,5,6,7	POC MARSHALL & WINSTON MODN CO. J T WYMAN TRUST P W PARKER TRUST FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST EM NOMINEE PTSP CO BARBARA SWEENEY FRATES SEELIGSON	WI RI RI RI RI RI RI RI RI RI RI DR NPRI	1.00000000	0.84765620 0.00390630 0.08203120 0.00195310 0.00195310 0.00390630 0.00195310 0.00097650 0.00097660 0.01562500 0.02734380 0.01171880	0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552 0.0267552	0.0267552 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0226792 0.0001045 0.0021948 0.0000523 0.0000523 0.0001045 0.0000523 0.0000261 0.0000261 0.0004181 0.0007316 0.0003135

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EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT PARTICIPATION 1 BOFD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)
14	O'BRIEN E #9	POC W G STROECKER MARION WEEKS B & R WINTHER MARSHALL & WINSTON MOON CO. J T WYMAN TRUST P W PARKER TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST EM NOMINEE PTSP CO FRANCISCA WINSTON EST TRUST FRATES SEELIGSON	WI WI WI WI RI RI RI RI RI RI RI RI NPRI	0.84250000 0.07500000 0.07500000 0.00750000 	0.73718750 0.06562500 0.06562500 0.00656250 0.00390630 0.08203120 0.00195310 0.00195310 0.00195310 0.00097650 0.00097660 0.01562500 0.00390630 0.01171880	0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182 0.0001182	0.0000996 0.0000089 0.0000089 0.0000089 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0000871 0.0000078 0.0000078 0.0000008 0.0000005 0.0000097 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000001 0.0000018 0.0000014
15	O'BRIEN D #2 - #6	POC TENNECO W G STROECKER MARION WEEKS B & R WINTHER MARSHALL & WINSTON MOON CO. J T WYMAN TRUST P W PARKER TRUST FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST FRATES SEELIGSON	WI WI WI WI WI RI RI RI RI RI RI RI RI NPRI	0.73718750 0.12500000 0.06562500 0.06562500 0.00656250 	0.59238280 0.12500000 0.05273440 0.05273440 0.00527340 0.00781250 0.12304680 0.00390630 0.00390630 0.00781250 0.00390630 0.00390630 0.00195310 0.01757810	0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152 0.0423152	0.0311942 0.0052894 0.0027769 0.0027769 0.0002777 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0250668 0.0052894 0.0022315 0.0022315 0.0002231 0.0003306 0.0052067 0.0001653 0.0001653 0.0003306 0.0001653 0.0001653 0.0000826 0.0007438
16	O'BRIEN E #1 - #8	POC W G STROECKER MARION WEEKS B & R WINTHER MARSHALL & WINSTON MOON CO. J T WYMAN TRUST P W PARKER TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST EM NOMINEE PTSP CO FRANCISCA WINSTON EST TRUST FRATES SEELIGSON	WI WI WI WI RI RI RI RI RI RI RI RI NPRI	0.84250000 0.07500000 0.07500000 0.00750000 	0.73718750 0.06562500 0.06562500 0.00656250 0.00390630 0.08203120 0.00195310 0.00195310 0.00195310 0.00097650 0.00097660 0.01562500 0.00390630 0.01171880	0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479 0.0217479	0.0183226 0.0016311 0.0016311 0.0001631 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0160323 0.0014272 0.0014272 0.0001427 0.0000850 0.0017840 0.0000425 0.0000425 0.0000425 0.0000212 0.0000212 0.0003398 0.0000850 0.0002549

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EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

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9-1-87

EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

UNIT OFFERING AGREEMENT									
TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT PARTICIPATION 1 BOFD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)	
18	O'BRIEN F #6	POC	WI	0.84250000	0.62660930	0.0005888	0.0004961	0.0003689	
		W G STROECKER	WI	0.07500000	0.05578110	0.0005888	0.0000442	0.0000328	
		MARION WEEKS	WI	0.07500000	0.05578110	0.0005888	0.0000442	0.0000328	
		B & R WINTHER	WI	0.00750000	0.00557810	0.0005888	0.0000044	0.0000033	
		MARSHALL & WINSTON	RI		0.00468760	0.0005888	0.0000000	0.0000028	
		MOON CO.	RI		0.09843750	0.0005888	0.0000000	0.0000580	
		J T WYMAN TRUST	RI		0.00234380	0.0005888	0.0000000	0.0000014	
		P W PARKER TRUST	RI		0.00234380	0.0005888	0.0000000	0.0000014	
		F S WINSTON MARITAL TRUST	RI		0.00234380	0.0005888	0.0000000	0.0000014	
		CHARLES A KELLY	RI		0.00117190	0.0005888	0.0000000	0.0000007	
		MURRAY C MCKINNON TRUST	RI		0.00117190	0.0005888	0.0000000	0.0000007	
		FRANCISCA WINSTON EST TRUST	RI		0.00468760	0.0005888	0.0000000	0.0000028	
		FRATES SEELIGSON	NPRI		0.01406250	0.0005888	0.0000000	0.0000083	
TENNECO (UV INDUSTRIES)	UNLEASED		1.00000000	0.12500000	0.0005888	0.0000000	0.0000736		
18A		POC	WI	0.84250000	0.59896490	0.0000000	0.0000000	0.0000000	
		W G STROECKER	WI	0.07500000	0.05332030	0.0000000	0.0000000	0.0000000	
		MARION WEEKS	WI	0.07500000	0.05332030	0.0000000	0.0000000	0.0000000	
		B & R WINTHER	WI	0.00750000	0.00533200	0.0000000	0.0000000	0.0000000	
		MOON CO	RI		0.12304690	0.0000000	0.0000000	0.0000000	
		FRATES SEELIGSON	NPRI		0.01757810	0.0000000	0.0000000	0.0000000	
		TENNECO (UV INDUSTRIES)	UNLEASED		1.00000000	0.12500000	0.0000000	0.0000000	
		FRANCISCA WINSTON EST TRUST	RI		0.00585940	0.0000000	0.0000000	0.0000000	
		F S WINSTON MARITAL TRUST	RI		0.00292970	0.0000000	0.0000000	0.0000000	
		CHARLES A KELLY	RI		0.00146480	0.0000000	0.0000000	0.0000000	
		P W PARKER TRUST	RI		0.00292970	0.0000000	0.0000000	0.0000000	
		J T WYMAN TRUST	RI		0.00292970	0.0000000	0.0000000	0.0000000	
		MARSHALL & WINSTON	RI		0.00585940	0.0000000	0.0000000	0.0000000	
MURRAY C MCKINNON TRUST	RI		0.00146480	0.0000000	0.0000000	0.0000000			
19	O'BRIEN F #7	POC	WI	0.84250000	0.59896490	0.0003464	0.0002918	0.0002075	
		W G STROECKER	WI	0.07500000	0.05332030	0.0003464	0.0000260	0.0000185	
		MARION WEEKS	WI	0.07500000	0.05332030	0.0003464	0.0000260	0.0000185	
		B & R WINTHER	WI	0.00750000	0.00533200	0.0003464	0.0000026	0.0000018	
		MARSHALL & WINSTON	RI		0.00585940	0.0003464	0.0000000	0.0000020	
		MOON CO.	RI		0.12304690	0.0003464	0.0000000	0.0000026	
		J T WYMAN TRUST	RI		0.00292970	0.0003464	0.0000000	0.0000010	
		P W PARKER TRUST	RI		0.00292970	0.0003464	0.0000000	0.0000010	
		F S WINSTON MARITAL TRUST	RI		0.00292970	0.0003464	0.0000000	0.0000010	
		CHARLES A KELLY	RI		0.00146480	0.0003464	0.0000000	0.0000005	
		MURRAY C MCKINNON TRUST	RI		0.00146480	0.0003464	0.0000000	0.0000005	
		FRANCISCA WINSTON EST TRUST	RI		0.00585940	0.0003464	0.0000000	0.0000020	
		FRATES SEELIGSON	NPRI		0.01757810	0.0003464	0.0000000	0.0000061	
TENNECO (UV INDUSTRIES)	UNLEASED		1.00000000	0.12500000	0.0003464	0.0000000	0.0000433		

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EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

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TLF PART D - WR1
9-1-87

EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	1 BOPD/WELL CUTOFF	PARTICIPATION (EXPENSE)	PARTICIPATION (REVENUE)
23	O'BRIEN F #9	POC W G STROECKER MARION WEEKS B & R WINTHER MOON CO FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY P W PARKER TRUST J T WYMAN TRUST MARSHALL & WINSTON MURRAY C MCKINNON TRUST TENNECO FRATES SEELIGSON	WI WI WI WI RI RI RI RI RI RI RI RI RI RI NPRI	0.84250000 0.07500000 0.07500000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000	0.67794930 0.06035150 0.06035150 0.06035150 0.00603520 0.12304690 0.00585940 0.00292970 0.00146480 0.00292970 0.00146480 0.00585940 0.03125000 0.01757810	0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051 0.0002051	0.0001728 0.0000154 0.0000154 0.0000154 0.0000015 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0001390 0.0000124 0.0000124 0.0000124 0.0000012 0.0000252 0.0000012 0.0000006 0.0000003 0.0000006 0.0000006 0.0000006 0.0000006 0.0000036
24	O'BRIEN I #1 - 8	POC W G STROECKER MARION WEEKS B & R WINTHER MARSHALL & WINSTON TENNECO MOON CO J T WYMAN TRUST P W PARKER TRUST FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST FRATES SEELIGSON	WI WI WI WI RI RI RI RI RI RI RI RI RI RI NPRI	0.84250000 0.07500000 0.07500000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000	0.68453120 0.06093750 0.06093750 0.06093750 0.00609380 0.00585940 0.00292970 0.00146480 0.00292970 0.00146480 0.00585940 0.03125000 0.01757810	0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733 0.1037733	0.0874290 0.0077830 0.0077830 0.0077830 0.0007783 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0710361 0.0063237 0.0063237 0.0063237 0.0006324 0.0006080 0.0024322 0.0127690 0.0003040 0.0003040 0.0006080 0.0001520 0.0001520 0.0018241
25	O'BRIEN J 1	POC W G STROECKER MARION WEEKS B & R WINTHER MARSHALL & WINSTON TENNECO MOON CO J T WYMAN TRUST P W PARKER TRUST F S WINSTON MARITAL TRUST CHARLES A KELLY MURRAY C MCKINNON TRUST FRANCISCA WINSTON EST TRUST FRATES SEELIGSON	WI WI WI WI RI RI RI RI RI RI RI RI RI RI NPRI	0.84250000 0.07500000 0.07500000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000 0.00750000	0.68453120 0.06093750 0.06093750 0.06093750 0.00609380 0.00585940 0.00292970 0.00146480 0.00292970 0.00146480 0.00585940 0.03125000 0.01757810	0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035 0.0016035	0.0013509 0.0001203 0.0001203 0.0001203 0.0000120 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000 0.0000000	0.0010976 0.0000977 0.0000977 0.0000977 0.0000098 0.0000094 0.0000376 0.0001973 0.0000047 0.0000047 0.0000047 0.0000047 0.0000047 0.0000282

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9-1-87

EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

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9-1-87

EXHIBIT "D"
TRACT & UNIT PARTICIPATION - TRACT BASIS
UNIT OPERATING AGREEMENT

UNIT OPERATING AGREEMENT										
TRACT #	LEASE/WELLS	OWNER	TYPE	GROSS WI	NET INTEREST	TRACT PARTICIPATION 1 BOPD/WELL CUTOFF	UNIT PARTICIPATION (EXPENSE)	UNIT PARTICIPATION (REVENUE)		
34	MOONSHINE 18 #1-5	POC SUN TENNECO MOON CO MURRAY C MCKINNON TRUST FRANCISCA WINSTON EST TRUST F S WINSTON MARITAL TRUST MARSHALL & WINSTON CHARLES A KELLY P W PARKER TRUST J T WYMAN TRUST DAVID I MILLER WILLIAM O DEWITT J T HOWARD DONALD R MATTS POC FRATES SEELIGSON	WI WI WI RI RI RI RI RI RI RI RI DR DR DR DR NPRI	0.68750000 0.18750000 0.12500000 <						

EXHIBIT " E "

Attached to and made a part of that certain Unit Operating Agreement
Twin Lakes San Andres Unit, County of Chaves, State of New
Mexico, dated June 1, 1987.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%)~~ twenty three percent (23%) or the percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

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. or temporary contr or professional services employed for the benefit of the joint property

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 4000.00
Water Source, / Injection or Producing Well Rate \$ 400.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month. This shall include production from water-source as well as oil and gas wells.
- [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 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 \$ 20,000.00 :

A. 5 % of total costs if such costs are more than \$ 20,000.00 but less than \$ 100,000.00 ; plus

B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. 2 % 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 C 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 Unit Operating Agreement, Twin Lakes San Andres Unit, County of Chaves, State of New Mexico, dated June 1, 1987.

INSURANCE

Unit Operator and Unit Operator's contractors and subcontractors shall, during the drilling and completing of any and all well or wells drilled on the Unit Area and during the performance of all operations, carry the following described minimum insurance coverage on the Unit Area.

- A. Employer's Liability with limit of \$100,000 and Workmen's Compensation Insurance covering Operator's employees and the employees of Operator's contractors and subcontractors engaged in operations under this Agreement, in compliance with the laws of the State where the work is to be performed.
- B. General Public Liability Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000.00) for injury to or death of any one person; not less than Five Hundred Thousand Dollars (\$500,000.00) for injury to or death of more than one person resulting from any one accident and for Property Damage with a limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000.00) for damage to property for each accident; and
- C. Automobile Public Liability and Property Damage Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with Bodily Injury or Death limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000.00) for injury to or death of any one person; not less than Five Hundred Thousand Dollars (\$500,000.00) for injury to or death of more than one person resulting from any one accident and for Property Damage with a limit of not less than Two Hundred Fifty Thousand Dollars (\$250,000.00) for damage to property for each accident.
- D. Such additional insurance as may be required by law.

Unit operator shall require its contractors and subcontractors working and performing services on land committed hereto to carry insurance of the types specified above. All insurance coverage shall be carried at the joint expense and for the benefit of the parties hereto.