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November 7, 1989

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

RECEIVED

NOV

OIL CONSERVATION DIVISION

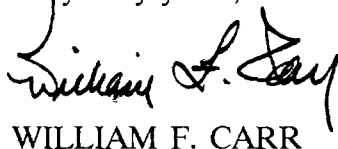
Carr 11/7/89

Re: In the Matter of the Application of Grand Resources, Inc. for Approval of
Statutory Unitization, San Juan County, New Mexico

Dear Mr. LeMay:

Enclosed in triplicate is the above-referenced application of Grand Resources, Inc. Grand Resources, Inc. respectfully requests that this matter be placed on the docket for the Examiner hearings scheduled on November 29, 1989.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosures

cc w/enclosures: Mr. Marvin Robinowitz
Grand Resources, Inc.

BEFORE THE
OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

RECEIVED

IN THE MATTER OF THE APPLICATION
OF GRAND RESOURCES, INC. FOR
APPROVAL OF STATUTORY UNITIZATION,
SAN JUAN COUNTY, NEW MEXICO.

NOV 7

OIL CONSERVATION DIVISION

CASE NO. 9836

APPLICATION

COMES NOW GRAND RESOURCES, INC, by and through its undersigned attorneys and pursuant to the provisions of the Statutory Unitization Act (Sections 70-7-1 through 70-7-21, N.M.S.A., 1978 Comp.) hereby applies to the New Mexico Oil Conservation Division for an order unitizing the Mesa-Gallup Unit, San Juan County, New Mexico, and in support of its application states:

1. Grand Resources Inc. (Grand) is a Oklahoma corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.

2. The proposed unit area for which this application is made consists of 2,120 acres, more or less, of Federal Indian lands located in San Juan County, New Mexico, and is more particularly described on Exhibit A attached hereto and incorporated herein by reference. Grand seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the project area.

3. The vertical limits of the formation to be included within the proposed unit area includes that interval which extends from a point 50 feet above the top of the Mesa-Gallup formation to the top of the Juana Lopez formation; said interval occurring in the Texas Pacific Coal and Oil Company Navajo C Well # 1 located 660 feet from the West line and 2310 feet from the South line of Section 24, Township 32 North, Range 18 West, N.M.P.M., San Juan County, New Mexico, at an indicated depth interval of 1186 feet to 1260 feet, as recorded on the induction gamma ray log Run No. 1 taken March 4, 1962, said log being measured from a derrick floor elevation of 5436 feet above sea level.

4. The portion of the reservoir involved in this application has been reasonably defined by development.

5. The type of operations being conducted in this unit is secondary recovery by means of water flooding.

6. Attached to this application as Exhibit B and incorporated herein by reference is a copy of the proposed plan of unitization which Grand considers fair, reasonably and equitable.

7. Attached to this application as Exhibit C and incorporated herein by reference is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Grand further states:

- a. Unitized management, operating and further development of the Mesa-Gallup Pool is reasonably necessary in order to effectively carry

on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion thereof.

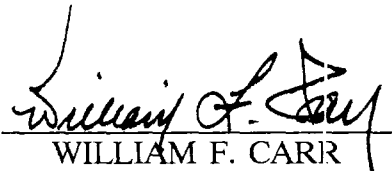
- b. Unitized methods of operations applied to the Mesa-Gallup Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
- c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil so recovered plus reasonable profit.
- d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within the pool.
- e. Grand Resources Inc., as operator, has made a good faith effort to secure voluntary unitization of all interests in the pool.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

9. Statutory unitization of the Mesa-Gallup Pool is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, Grand Resources Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on November 29, 1989, and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application to statutorily unitize the Mesa-Gallup Pool, San Juan County, New Mexico.

Respectfully submitted,

CAMPBELL & BLACK, F.A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR GRAND
RESOURCES, INC.

EXHIBIT A

MESA-GALLUP UNIT AREA

TOWNSHIP 32 NORTH, RANGE 18 WEST, N.M.P.M.

Section 10: S/2 SE/4; NW/4 SE/4; E/2 SW/4
Section 13: S/2 SW/2
Section 14: S/2; S/2 NW/4; NW/4 NW/4
Section 15: NE/4; N/2 SE/4; SE/4 SE/4; NE/4 NW/4
Section 23: NE/4; N/2 SE/4; SE/4 SE/4;
E/2 NW/4; NW/4 NW/4
Section 24: W/2; S/2 SE/4; NW/4 SE/4
Section 25: NE/2; N/2 NW/4; SE/4 NW/4

Secondary

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA GALLUP UNIT AREA -
COUNTY OF SAN JUAN -
STATE OF NEW MEXICO -

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Preliminary Recitals	1
1 Enabling Act and Regulations	2
2 Unit Area	3
3 Expansion of Unit area	4
4 Unitized Land and Unitized Substances	5
5 Tracts Qualified for Participation	5
6 Unit Operator	8
7 Resignation or Removal of Unit Operator	8
8 Successor Unit Operator	10
9 Accounting Provisions and Unit Operating Agreement	10
10 Rights and Obligations of Unit Operator	11
11 Plan of Operation	12
12 Participation and Allocation of Production	13
13 Royalty Settlement	15
14 Rental Settlement	17
15 Conservation	18
16 Drainage	18
17 Gauge of Merchantable Oil	18
18 Lease and Contracts Conformed and Extended	18
19 Covenants Run with Land	21
20 Effective Date	21
21 Term	22
22 Termination by Working Interest Owners	22
23 Rate of Prospecting, Development, and Production	23
24 Appearances	23
25 Notices	24
26 No Waiver of Certain Rights	24
27 Unavoidable Delay	24
28 Non-Discrimination	25
29 Wyoming State Land Provisions	25
30 Loss of Title	27
31 Subsequent Joinder	28
32 Counterparts	29
33 Royalty Owners' Taxes	29
34 No Partnership	30
35 Border Agreements	30
36 Correction of Errors	30

- ✓ Exhibit A: Map of Unit Area
✓ Exhibit B: Description of Unit Area
✓ Exhibit C: Tract and Tract Participation

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
MESA GALLUP UNIT AREA
COUNTY OF SAN JUAN
STATE OF NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of September,
19 89, by and between the parties subscribing, ratifying or consenting
hereto, and herein referred to as the "parties hereto",

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of working, royalty,
or other oil interests in the Unit Area subject to this Agreement; and

WHEREAS, the term "Working Interest" as used herein shall mean
the interest held in Unitized Substances or in lands containing Unitized
Substances by virtue of a lease, operating agreement, fee title, or
otherwise, which is chargeable with and obligated to pay or bear all or
a portion of the costs of drilling, developing, producing, and operating
the land under the unit or cooperative agreement. "Royalty Interest"
as used herein shall mean a right to or interest in any portion of the
Unitized Substances or proceeds thereof other than a Working Interest.
The owner of oil and gas rights that are free of lease or other instrument
conveying the working interest rights to another shall be regarded as a
Working Interest Owner to the extent of a seven-eighths (7/8ths) interest
in and to such oil and gas rights, and as a Royalty Interest Owner to the
extent of the remaining one-eighth (1/8th) interest therein; and

WHEREAS, the rules and regulations governing the leasing of
allotted Indian lands for oil and gas promulgated by the Secretary
of the Interior (25 CFR Part 172) under and pursuant to the Tribal &

1 Allotted Land Leasing Act of March 3, 1909, 35 Stat. 783, 25
2 U.S.C. Sec. 396 and the oil and gas leases covering said
3 allotted Indian lands provide for the commitment of such
4 leases to a cooperative or unit plan of development or
5 operation;

6 WHEREAS, it is the purpose of the parties hereto to
7 conserve natural resources, prevent waste, and secure other
8 benefits obtainable through development and operation of
9 the Arca subject to this Agreement under the terms, conditions,
10 and limitations herein set forth;

11 NOW THEREFORE, in consideration of the premises and the
12 promises herein contained, the parties hereto commit to this
13 Agreement their respective interests in the below-defined
14 Unit Area, and agree severally among themselves as follows:

15 ENABLING ACT AND REGULATIONS. The Allotted and Tribal
16 Leasing Act of March 3, 1909, and the Mineral Leasing Act of
17 February 25, 1920, as amended, supra, and all valid pertinent
18 regulations, including operating and unit plan regulations,
19 heretofore issued thereunder or valid, pertinent and reasonable
20 regulations hereafter issued thereunder are accepted and made a
21 part of this Agreement as to Federal Lands and Indian Lands,
22 provided such regulations are not inconsistent with the terms
23 of this agreement; and as to State of New Mexico lands, the
24 oil and gas operating regulations in effect as of the effective
25 date hereof governing drilling and producing operations, not
26 inconsistent with the terms hereof or the laws of the State of
27 New Mexico in which the non-Federal and non-Indian land is
28 located, are hereby accepted and made a part of this agreement.

drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

2. UNIT AREA. The area specified on the plat attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 2,120 acres, more or less.

Exhibit "A" shows in addition to the boundary of the Unit Area, the boundaries and identity of tracts and leases in said Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil interests in all land in the Unit Area. Exhibit "C" attached hereto, is a schedule showing the percentage of participation credited to each Tract in the Unit Area based upon a presumed one hundred percent (100%) commitment. (Tract means each parcel of land described as such and given a Tract Number in Exhibit "B"). However, nothing herein or in said schedule or map shall be construed as a representation by any party as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor" or by the Commission. In such case not less than six (6) copies of the revised exhibits shall be filed with the Supervisor.

*The Tracts shown on Exhibit "A" and described in Exhibit "B" have been drawn in a manner to conform to the 2,120 acre spacing order currently in effect and covering the entire Unit Area.

3. EXPANSION OF UNIT AREA. Any enlargement of the Unit Area shall require approval by the Director of the United States Geological Survey, hereinafter referred to as "Director". The unit area may, with the approval of the Director, be expanded to include therein any additional lands whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Subject to such approval of the Director, any such expansion may be accomplished either (1) by order of the New Mexico Oil and Gas Commission, or (2) pursuant to

agreement fixing the tract participation of each tract added by such expansion and providing for the commitment of the interests of the owner thereof to this agreement, and, if applicable, to the unit operating agreement, and negotiated with such owners by the unit operator acting on behalf of the working interest owners collectively after being duly authorized by them as provided in the unit operating agreement. Whenever the unit area is enlarged so as to admit additional land qualified for participation, Exhibit "C" shall be revised as set forth in Section 12, Participation and Allocation of Production. Any such expansion

shall be effected in the following manner:

- 19 (a) Unit Operator, on its own motion, after preliminary
- 20 concurrence by the Director, shall prepare a notice of
- 21 proposed expansion describing the contemplated changes
- 22 in the boundaries of the Unit Area, the reasons therefor,
- 23 and the proposed effective date thereof, preferably the
- 24 first day of a month subsequent to the date of notice.
- 25 (b) Said notice shall be delivered to the Supervisor,
- 26 and copies thereof mailed to the last known address of
- 27 each Working Interest Owner, Lessee, and Lessor whose
- 28 interests are affected, advising that thirty (30) days
- 29 will be allowed for submission to the Unit Operator of
- 30 any objections.

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1 (c) Upon expiration of the thirty (30) day period provided
2 in the preceding item (b) hereof, Unit Operator shall file
3 with the Supervisor evidence of mailing of the notice of
4 expansion and a copy of any objections thereto which
5 have been filed with the Unit Operator, together with an
6 application and appropriate joinder in sufficient number,
7 for approval of such expansion.

8 (d) After due consideration of all pertinent information,
9 the expansion shall, upon approval by the Supervisor,
10 become effective as of the date prescribed in the notice
11 thereof.

12 4. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed
13 to this Agreement as provided in Section 5, Tracts Qualified for
14 Participation, as to the Unitized Formation defined immediately below,
15 shall constitute land referred to herein as "Unitized Land" or "land
16 subject to this Agreement". All oil and gas in and produced from the
17 Unitized Formation is unitized under the terms of this Agreement and
18 herein is called "Unitized Substances".

19 The Unitized Formation shall mean the Mesa Gallup Formation as
20 identified by the Schlumberger Combination Induction Gamma Ray
21 log run in the Navajo Tribal "C", # 1 well, located in the NW/4
22 section 24 Township 32N, Range 18W, San Juan County, New Mexico,
23 with the top of the unitized formation being found at a depth
24 of 1,220 feet below the surface (-4,216 feet subsea) and the base
25 of the unitized formation being found at a depth of 1,240 feet
26 below the surface (-4,196 feet subsea).

27 5. TRACTS QUALIFIED FOR PARTICIPATION. Inasmuch as the objective
28 of this Unit Agreement is to have lands in the Unit Area operated and
29 entitled to participation under the terms hereof, no joinder shall be
30 considered a commitment to this Unit Agreement unless the Tract involved

1 is qualified under this Section. On or after the effective date hereof,
2 the Tracts within the Unit Area which, in absence of an involuntary pooling
3 order issued by the Commission, shall be entitled to participation in the
4 production of Unitized Substances therefrom shall be those Tracts within
5 the Unit Area more particularly described in Exhibit "B" that are quali-
6 fied as follows (for the purposes of this section, the record interest
7 shall replace the royalty interest as to Federal Land):

8 (a) Each Tract as to which Working Interest Owners owning
9 one hundred percent (100%) of the Working Interest have
10 signed or ratified this Agreement and the Unit Operating
11 Agreement and Royalty Owners owning seventy-five percent (75%)
12 or more of the royalty created by the basic leases have
13 signed or ratified this Agreement;

14 (b) Each Tract as to which Working Interest Owners
15 owning one hundred percent (100%) of the Working Interests
16 have signed or ratified this Agreement and the Unit Operating
17 Agreement, and Royalty Owners owning less than seventy-five
18 percent (75%) of the royalty interests created by the basic
19 leases have signed or ratified this Agreement, and as to
20 which (1) all Working Interest Owners in such Tract join in
21 a request for inclusion of such Tract in Unit Participation
22 upon the basis of such commitment status, and further as to
23 which (2) seventy-five percent (75%) or more of the combined
24 voting interests of Working Interest Owners in all Tracts
25 which meet the requirements of Subsection 5(a) vote in favor
26 of the acceptance of such Tract as qualified. For the
27 purpose of this Subsection 5(b), the voting interest of
28 each Working Interest Owner shall be equal to the ratio
29 (expressed in percentage) which the total of such Working
30 Interest Owner's percentage participation in all Tracts which

1 qualify under Subsection 5(a), bears to the total percentage
2 participation of all Working Interest Owners in all Tracts
3 which qualify under said Subsection 5(a) as such percentages
4 are shown on Exhibit "C";

5 (c) Each Tract as to which Working Interest Owners owning
6 less than one hundred percent (100%) of the Working Interest
7 have signed or ratified this Agreement and the Unit Operating
8 Agreement, regardless of the percentage of royalty interest
9 therein that is committed hereto, and as to which (1) the
10 Working Interest Owner who operates the Tract and all of the
11 other subscribing Working Interest Owners in such Tract
12 have joined in a request for inclusion of such Tract in
13 Unit participation upon the basis of such commitment
14 status and have tendered and executed and delivered an
15 indemnity agreement, indemnifying and agreeing to hold
16 the owners of the working interests in the other qualified
17 tracts harmless from and against any and all claims and
18 demands that may be made by the non-subscribing Working
19 Interest Owners in such Tract on account of the inclusion
20 of the same in Unit participation, and further as to
21 which (2) seventy-five percent (75%) or more of the
22 combined voting interests of the Working Interest Owners
23 in all Tracts which meet the requirements of Subsection
24 5(a) and 5(b) above, vote in favor of the inclusion of
25 such Tract. For the purpose of this Subsection 5(c), the
26 voting interest of each Working Interest Owner shall be
27 equal to the ratio (expressed in percentage) which the
28 total of such Working Interest Owner's percentage partici-
29 pation attributed to Tracts which qualify under Subsections
30 5(a) and 5(b) bears to the total percentage of all Working

Interest Owners attributed to all Tracts which qualify under Subsections 5(a) and 5(b), as such percentages are set out in Exhibit "C".

Notwithstanding anything in this section to the contrary all tracts within the Unit Area shall be deemed to be qualified for participation if this Agreement and the Unit Operating Agreement are duly approved as a Plan of Unitization and Operating Plan by order of the New Mexico and Gas Conservation Commission.

6. UNIT OPERATOR. GRAND RESOURCES, INC.


is hereby designated as Unit Operator, and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the development and production of Unitized Substances as herein provided: Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to Unit Operator as the owner of a Working Interest when such an interest is owned by it.

7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator

shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate that Operator's rights as such for a period of six (6) months after notice of intention to resign has been served by Unit Operator on all Working Interest Owners and the Director, and until all wells are placed in a satisfactory condition for suspension or abandonment whichever is required by the Supervisor, unless a new Unit Operator shall have been selected and accepted and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

4 The Unit Operator may, upon default or failure in the per-
5 formance of its duties or obligations hereunder, be subject to
6 removal by an affirmative vote of a majority of Working Interest
7 Owners, provided that if a majority but less than 75 percent of
8 the Working Interests qualified to vote are owned by one (1)
9 party to this agreement, a concurring vote of one or more ad-
10 ditional Working Interest Owners shall be required to remove the
11 Unit Operator after excluding the voting interest of the Unit
12 Operator. Such removal shall be effective upon notice thereof
13 to the Director. In all such instances of resignation or re-
14 moval, until a successor Unit Operator is selected and accepted
15 as hereinafter provided, the Working Interest Owners shall be
16 jointly responsible for performance of the duties of Unit
17 Operator, and shall not later than thirty (30) days before such
18 resignation or removal becomes effective appoint a common agent
19 to represent them in any action to be taken hereunder..

20 The resignation or removal of Unit Operator under this Agree-
21 ment shall not terminate its right, title or interest as the owner
22 of a Working Interest or other interest in Unitized Substances, but
23 upon the resignation or removal of Unit Operator becoming effective,
24 such Unit Operator shall deliver possession of all wells, equipment,
25 materials, and appurtenances used in conducting the Unit operations
26 and owned by the Working Interest Owners to the new duly qualified
27 successor Unit Operator or to the owners thereof if no such new
28 Unit Operator is elected, to be used for the purpose of conducting
29 Unit operations hereunder. Nothing herein shall be construed as
30 authorizing removal of any material, equipment, and appurtenances
31 needed for the preservation of any wells. 

1 8. SUCCESSOR UNIT OPERATOR.. Whenever the Unit Operator
2 shall tender his or its resignation as Unit Operator or shall be
3 removed as hereinabove provided, or a change of Unit Operator is
4 negotiated by Working Interest Owners, a successor Unit Operator shall
5 be selected by Working Interest Owners voting according to their
6 respective Tract participation in all unitized land by a majority
7 vote; provided, that, if a majority but less than 75 percent of
8 the Working Interests qualified to vote are owned by one party to
9 this agreement, a concurring vote of one or more additional Working
10 Interest Owners shall be required to select a new Operator. Such
11 selection shall not become effective until:

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

14 and

15 (b) the selection shall have been approved by the
16 Supervisor.

17 If no successor Unit Operator is selected and qualified
18 as herein provided, the Director at his election may declare this
19 Unit Agreement terminated.

20 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.¹²

21 If the Unit Operator is not the sole owner of Working Interests,
22 costs, and expenses incurred by Unit Operator in conducting Unit
23 Operations hereunder shall be paid and apportioned among and borne
24 by the owners of Working Interests, all in accordance with the
25 agreement or agreements, whether one or more, separately or collec-
26 tively, entered into by and between the Unit Operator and the
27 owners of Working Interests. Any agreement or agreements, whether
28 one or more, entered into between the Working Interest Owners and
29 the Unit Operator as provided in this section are herein referred
30 to as the "Unit Operating Agreement".

Such Unit Operating Agreement shall also set forth such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by Unit Operator and the Working Interest Owners, however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three (3) true copies of any Unit Operating Agreement executed pursuant to this section shall be filed with the Supervisor prior to approval of this Unit Agreement, and thereafter promptly after any revision or amendment.

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

1 11. PLAN OF OPERATION. It is recognized and agreed by the
2 parties hereto that the Unit Area is developed and productive, and
3 only such drilling as is incidental to a secondary recovery or pressure
4 maintenance program is contemplated.

5 Inasmuch as the primary purpose of this Unit Agreement is
6 to permit the institution and consummation of a secondary recovery
7 or pressure maintenance program for the maximum economic production
8 of Unitized Substances consistent with good engineering and conser-
9 vation practices, Unit Operator, concurrently with the filing of
10 this Unit Agreement for final approval by the Supervisor, shall
11 submit to the Supervisor for approval, a plan of operation for the
12 Unitized Land, and upon approval thereof by the Supervisor, such
13 plan shall constitute the future operating obligations of the Unit
14 Operator under this Unit Agreement for the period specified therein.
15 Thereafter, from time to time before the expiration of any existing
16 plan, the Unit Operator shall submit for like approval a plan for
17 an additional specified period of operation; said plan or plans
18 shall be modified or supplemented when necessary to meet changed
19 conditions, or to protect the interest of all parties to the Unit
20 Agreement. Reasonable diligence shall be exercised in complying with
21 the obligations of any approved plan of operation.

22 Unit Operator shall have the right to inject into the
23 Unitized Formation any substances for secondary recovery or pressure
24 maintenance purposes in accordance with a plan of operation approved
25 by the Supervisor, including the right to drill and maintain injection
26 wells on the Unitized Land and completed in the Unitized Formation, and
27 to use abandoned well or wells producing from the Unitized Formation
28 for said purpose, and the parties hereto, to the extent of their rights
29 and interests, hereby grant to the Unit Operator the right to use as
30 much of the surface of the land within the Unit Area as may be reasonably

1 If after the effective date of this Agreement any Tract or
2 Tracts are subsequently committed hereto and qualified because of
3 expansion of the Unit under Section 3, Expansion of Unit Area, or any
4 Tract or Tracts are subsequently qualified under the provisions of
5 Section 5, Tracts Qualified for Participation, and Section 31, Subse-
6 quent Joinder, or if any Tract is eliminated from the Unit Agreement
7 as provided in Section 30, Loss of Title, the schedule of participation
8 as shown in Exhibit "C" shall be revised by the Unit Operator to show
9 the new Tract Participations of all the then qualified Tracts, and
10 the revised Exhibit "C", upon approval by the Supervisor, shall govern
11 the allocation of production from the effective date thereof until a
12 new schedule is so approved. In any such revised Exhibit "C", pursuant
13 to this paragraph, the Tract Participation of the previously qualified
14 Tracts shall remain in the same ratio one to the other.

15 On the effective date of this Agreement, and thereafter, all
16 Unitized Substances produced hereunder (except any part thereof used
17 in conformity with good operating practices for drilling, operating,
18 camp, and other production or development purposes, for pressure
19 maintenance or secondary recovery operations in accordance with a
20 plan of operation approved by the Supervisor, or unavoidably lost),
21 shall be deemed to be produced from the several Tracts of Unitized
22 Land, and for the purpose of determining any benefits accruing under
23 this Agreement each such Tract shall have allocated to it that per-
24 centage of said production equal to its Tract Participation effective
25 hereunder during the respective period such Unitized Substances were
26 produced, as set out in Exhibit "C".

27 If, as of the effective date hereof, any Tract is over-
28 produced with respect to the allowables of the wells on that Tract
29 as established by the State of New Mexico, and the amount of overproduction
30 has been sold or otherwise disposed of, such overproduction shall be

1 regarded as a part of the Unitized Substances produced after the
2 effective date hereof and shall be charged to such Tract as having
3 been delivered to the parties entitled to Unitized Substances allo-
4 cated to such Tracts.

5 The amount of Unitized Substances allocated to each Tract
6 shall be deemed to be produced from such Tract irrespective of the
7 location of the wells from which the same is produced and regard-
8 less of depletion of wells or Tracts. In the absence of a control-
9 ling contract or agreement to the contrary, when two or more leases,
10 or part or parts thereof have been combined into a single Tract, the
11 percentage participation assigned to such Tract shall for all pur-
12 poses be divided among the separate leases, or part or parts thereof,
13 which have been put into such Tract, in proportion to the number of
14 surface acres of the leases, or part or parts thereof contained in
15 such Tract to the total surface acres contained in said Tract.

16 13. ROYALTY SETTLEMENT. The United States and all Royalty
17 Owners who, under existing contract, are entitled to take in kind
18 a share of the substance now unitized hereunder produced from any
19 tract, shall hereafter be entitled to the right to take in kind
20 their share of the Unitized Substances allocated to such tract, and
21 Unit Operator shall make deliveries of such royalty share taken in
22 kind in conformity with the applicable contracts, laws, and regula-
23 tions. Settlement for Royalty Interest not taken in kind shall be
24 made by Working Interest Owners responsible therefor under existing
25 contracts, laws, and regulations on or before the last day of each
26 month for Unitized Substances produced during the preceding calendar
27 month; provided, however, that nothing herein contained shall operate
28 to relieve the lessees of any land from their respective lease obli-
29 gations for the payment of any royalties due under their leases.

1 If gas obtained from lands or formations not subject to
2 this Agreement is introduced into the Unitized Formation hereunder,
3 for use in repressuring, stimulation of production, or increasing
4 ultimate recovery, which shall be in conformity with a plan first
5 approved by the Supervisor, a like amount of gas less appropriate
6 deduction for loss or depletion from any cause, may be withdrawn
7 from the Unitized Formation, royalty free as to dry gas, but not
8 as to the products extracted therefrom; provided that such withdrawal
9 shall be at such time as may be provided in the approved plan of
10 operations or as may otherwise be consented to by the Supervisor
11 as conforming to good petroleum engineering practice; and provided
12 further, that such right of withdrawal shall terminate on the
13 termination of this Unit Agreement.

14 If natural gasoline, liquid petroleum gas fractions or
15 other liquid hydrocarbon substances (herein collectively called
16 "LPGS") which were not extracted from gas produced from the Unitized
17 Formation are injected into the Unitized Formation, which shall be
18 in conformity with a plan of operation first approved by the Super-
19 visor, Working Interest Owners shall be entitled to recover, roy-
20 alty free, part of all of such "LPGS" pursuant to such conditions
21 and formulas as may be prescribed or approved by the Supervisor.

22 Royalty due the United States shall be computed as pro-
23 vided in the operating regulations and paid in value or delivered
24 in kind as to all Unitized Substances on the basis of the amounts
25 thereof allocated to unitized Federal land as provided herein at
26 the rates specified in the respective Federal leases, or at such
27 lower rates as may be authorized by law or regulation; provided
28 that for leases on which the royalty rate depends on the daily
29 average production per well, said average production shall be

1 determined in accordance with the operating regulations as though the
2 Unitized Lands were a single consolidated lease.

3 As to non-Federal lands, any royalty or other payment which
4 varies under the terms of the instrument creating it, according to
5 actual production from a Tract or according to the capabilities of
6 wells located thereon to produce, shall, on and after the effective
7 date, be computed upon that portion of the Unitized Substances
8 allocated to the particular Tract and not upon the actual production
9 of oil and gas from the Tract or the capability of the well thereon
10 to produce. If any such royalty or other payment depends on the
11 production or pipeline runs from a well, such production or pipeline
12 run shall be determined by dividing the Unitized Substances allocated
13 to the Tract by the number of wells located thereon that were capable
14 of producing or capable of being used in unit operations as a pro-
15 ducing well, or otherwise as of the effective date. If any Tract
16 has no such well located thereon as of the effective date, it shall
17 be treated as having one well within the meaning of this section.

18 14. RENTAL SETTLEMENT. Rental or minimum royalties due on
19 leases committed hereto shall be paid by Working Interest Owners
20 responsible therefor under existing contracts, laws, and regulations,
21 provided that nothing herein contained shall operate to relieve
22 the lessees of any land from their respective lease obligations for
23 the payment of any rental or minimum royalty in lieu thereof due
24 under their leases. Rental and minimum royalty for lands of the
25 United States subject to this Agreement shall be paid at the rate
26 specified in the respective leases from the United States unless
27 such rental or minimum royalty is waived, suspended or reduced by
28 law or by approval of the Secretary or his duly authorized representative.

1 15. CONSERVATION. Operations hereunder and production of
2 Unitized Substances shall be conducted to provide for the most eco-
3 nomical and efficient recovery of said substances without waste, as
4 defined by or pursuant to State or Federal law or regulation.

5 16. DRAINAGE. The Unit Operator shall take appropriate and
6 adequate measures to prevent drainage of Unitized Substances from
7 Unitized Land by wells on land not subject to this Agreement, or
8 with prior consent of the Director, pursuant to applicable regula-
9 tions pay a fair and reasonable compensatory royalty as determined
10 by the Supervisor. In event compensatory royalty is so paid, it
11 shall be treated in the same manner as Unitized Substances.

12 17. GAUGE OF MERCHANTABLE OIL. Unit Operator shall make a
13 proper and timely gauge of all lease and other tanks within the
14 Unit Area and associated with the operation of Unitized Land in
15 order to ascertain the amount of merchantable oil above the pipe-
16 line connections in such tanks at 7:00 A. M. on the effective date
17 hereof. All such oil shall be and remain the property of the
18 parties entitled thereto the same as if the Unit had not been
19 formed; and such parties shall promptly remove said oil from said
20 tanks. Any such oil not so removed shall be sold by Unit Opera-
21 tor for the account of parties entitled thereto, subject to the
22 payment of all royalties, overriding royalties, production payments,
23 and all other payments under the terms and provisions of the
24 applicable lease, leases, or other contracts.

25 18. LEASE AND CONTRACTS CONFORMED AND EXTENDED. The terms,
26 conditions, and provisions of all leases, subleases, and other
27 contracts relating to exploration, drilling, development, or oper-
28 ation for oil or gas of lands committed to this Agreement are
29 hereby expressly modified and amended to the extent necessary to

make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this Agreement, regardless of whether there is any development of any particular part or Tract of the Unitized Land, notwithstanding anything to the contrary in any lease, operating agreement, or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all Unitized Land pursuant to direction or consent of the Secretary or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Land.

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

(e) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784): "Any (federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities".

1 19. COVENANTS RUN WITH LAND. The covenants herein shall be
2 construed to be covenants running with the land with respect to the
3 interest of the parties hereto and their successors in interest
4 until this Agreement terminates, and any grant, transfer, or con-
5 veyance, of interest in land or leases subject hereto shall be and
6 hereby is conditioned upon the assumption of all privileges and
7 obligations hereunder by the grantee, transferee, or other successor
8 in interest. No assignment or transfer of any Working Interest shall
9 be binding upon Unit Operator nor shall any transfer of any Royalty
10 Interest or other interest be binding on the Working Interest Owner
11 responsible for payment or settlement thereof, until the first day
12 of the calendar month after Unit Operator or the responsible Working
13 Interest Owner, as the case may be, is furnished with the original,
14 photostat, or certified copy of the instrument of transfer.

15 20. EFFECTIVE DATE. This Agreement shall become binding
16 upon each party who executes or ratifies it as of the date of execu-
17 tion or ratification by such party and shall become effective

18 on the first day of the calendar month next following the
19 approval of this Agreement by the Secretary of the Interior or his
20 duly authorized delegate.

21 Unit Operator shall within thirty (30) days after the
22 effective date of this Agreement file for record in the office or
23 offices where a counterpart of this Agreement is recorded, a certi-
24 ficate to the effect that this Agreement has become effective
25 according to its terms and stating further the effective date.

1 21. TERM. The term of this Agreement shall be for and during
2 the time that Unitized Substances can be produced in quantities suf-
3 ficient to pay for the cost of producing same from wells on Unitized
4 Land and for as long thereafter as drilling, reworking, or other
5 operations are prosecuted on Unitized Land without cessation of
6 more than ninety (90) consecutive days, and so long thereafter as
7 Unitized Substances can be produced as aforesaid, unless sooner
8 terminated by the Director as provided in Section 8, Successor Unit
9 Operator, or by the Working Interest Owners as provided in Section
10 22, Termination By Working Interest Owners.

11 22. TERMINATION BY WORKING INTEREST OWNERS. This Agreement
12 may be terminated at any time by Working Interest Owners owning 80%
13 eighty percent or more of the participation percentage in the
14 Unitized Land with the approval of the Supervisor. Notice of any
15 such termination shall be given by the Unit Operator to all parties
16 hereto.

17 Upon termination of this Agreement, the parties hereto shall
18 be governed by the terms and provisions of the leases and contracts
19 affecting the separate Tracts.

20 If not specified otherwise by the leases unitized under
21 this Agreement, basic Royalty Owners hereby grant Working Interest
22 Owners a period of six (6) months after termination of this Agree-
23 ment in which to salvage, sell, distribute, or otherwise dispose of
24 the personal property and facilities used in connection with Unit
25 operations.

26 Unit Operator shall, within thirty (30) days after the
27 termination of this Agreement has been determined, pursuant to
28 Sections 8 and 22 hereof, file for record in the office or offices
29 where a counterpart of this Agreement is recorded, a certificate
30 setting forth the fact of such termination and the date thereof.

1 23. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The
2 Director is hereby vested with authority to alter or modify from time
3 to time in his discretion the quantity and rate of production under
4 this Agreement when such quantity and rate is not fixed pursuant to
5 Federal or State law or does not conform to any statewide voluntary
6 conservation or allocation program, which is established, recognized,
7 and generally adhered to by the majority of operators in such State,
8 such authority being hereby limited to alteration or modification in
9 the public interest, the purpose thereof and the public interest to
10 be served thereby to be stated in the order of alteration or modifi-
11 cation. Without regard to the foregoing, the Director is also
12 hereby vested with authority to alter or modify from time to time
13 in his discretion the rate of prospecting and development and the
14 quantity and rate of production under this Agreement when such alter-
15 ation or modification is in the interest of attaining the conservation
16 objectives stated in this Agreement and is not in violation of any
17 applicable Federal or State law.

18 Powers in this section vested in the Director shall only
19 be exercised after notice to Unit Operator and opportunity for
20 hearing to be held not less than fifteen (15) days from notice.

21 24. APPEARANCES. Unit Operator shall, after notice to other
22 parties affected, have the right to appear for and on behalf of any
23 and all interests affected hereby before the Department of the In-
24 terior and to appeal from orders issued under the regulations of
25 said Department or to apply for relief from any of said regulations
26 or in any proceedings relative to operations before the Department
27 of the Interior or any other legally constituted authority; provided,
28 however, that any other interested party shall also have the right
29 at his own expense to be heard in any such proceeding.

1 25. NOTICES.... All notices, demands, or statements required
2 hereunder to be given or rendered to the parties hereto shall be
3 deemed fully given, if given in writing, or personally delivered to
4 the party or sent by postpaid registered or certified mail, addressed
5 to such party at the address such party has furnished to the party
6 sending the notice, demand, or statement.

7 26. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement
8 contained shall be construed as a waiver by any party hereto of the
9 right to assert any legal or constitutional right or defense as to
10 the validity or invalidity of any law of the State of New Mexico or
11 of the United States, or regulations issued thereunder in any way
12 affecting such party, or as a waiver by any such party of any right
13 beyond his or its authority to waive, provided, however, each party
14 hereto except the United States covenants that during the existence
15 of this Agreement, such party shall not resort to any action at law
16 or in equity to partition the Unitized Land or the facilities used
17 in the development or operation thereof and to that extent waives
18 the benefits of all laws authorizing such partition.

19 27. UNAVOIDABLE DELAY. All obligations under this Agreement,
20 except the payment of money, shall be suspended while, but only so
21 long as, the Unit Operator despite the exercise of due care and
22 diligence is prevented from complying with such obligations, in
23 whole or in part, by strikes, acts of God, Federal, State, or municipi-
24 pal law or agencies, unavoidable accidents, uncontrollable delays in
25 transportation, inability to obtain necessary materials in open
26 market, or other matters beyond the reasonable control of the Unit
27 Operator whether similar to matters herein enumerated or not.

1 28. NON-DISCRIMINATION. In connection with the performance
2 of work under this Agreement, the Unit Operator agrees to comply with
3 all the provisions of Section 202(1) to (7) inclusive, of Executive
4 Order 11246, 30 F.R. 12319, ^{as amended} which are hereby incorporated by reference
5 in this Agreement.

29. This paragraph not applicable.

1 30. LOSS OF TITLE. In the event title to any Tract of Unit-
2 ized Land shall fail and the true owner cannot be induced to join
3 in this Unit Agreement, such Tract shall be automatically regarded
4 as not committed hereto and there shall be such readjustment of
5 future costs and benefits as may be required on account of the loss
6 of such title. In the event of a dispute as to title as to any
7 Royalty, Working Interest, or other interests subject hereto,
8 payment or delivery on account thereof may be withheld without
9 liability for interest until the dispute is finally settled; pro-
10 vided that as to Federal land or leases, no payments of funds due
11 the United States should be withheld, but such funds shall be
12 deposited as directed by the Supervisor to be held as unearned
13 money pending final settlement of the title dispute, and then
14 applied as earned or returned in accordance with such final settle-
15 ment.

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

18 In order to avoid title failure which might incidentally
19 cause the title to a Working Interest or Interests to fail, the
20 owners of (2) the surface rights to land subject to this Agreement,
21 (b) severed minerals or Royalty Interests in said land, and (c)
22 improvements located on said lands but not utilized for Unit opera-
23 tions, shall individually be responsible for the rendition and
24 assessment, for ad valorem tax purposes, of all such property, and
25 for payment of such taxes, except as otherwise provided in any con-
26 tract or agreement between such owners and a Working Interest Owner
27 of Owners or in the Unit Operating Agreement. If any ad valorem
28 taxes are not paid by such owners responsible therefor when due,
29 the Unit Operator may, at any time prior to tax sale, pay the same,

redeem such property, and discharge such tax liens as may arise through non-payment. In the event the Unit Operator makes any such payment or redeems any such property from tax sale, the Unit Operator shall be reimbursed therefor by the Working Interest Owners in proportion to their respective percentages of Unit Participation; and the Unit Operator shall withhold from the proceeds otherwise due to said delinquent taxpayer or taxpayers, an amount sufficient to defray the costs of such payment or redemption, such withholdings to be distributed among the Working Interest Owners in proportion to their respective contributions toward such payment or redemption.

31. SUBSEQUENT JOINDER. After the effective date of this Agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such equitable terms as may be negotiated by Working Interest Owners and the owner of such interest. After the effective date hereof, joinder by a Royalty Owner must be consented to in writing by the Working Interest Owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Interest. Joinder by any Royalty Owner at any time must be accompanied or preceded by appropriate joinder by the Owner of the corresponding Working Interest in order for the interest to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as committed to this Unit Agreement. Except as may otherwise herein be provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of all or any papers necessary to establish commitment of any Tract to this Agreement unless objection to such joinder is made within sixty (60) days by the Director.

1 32. COUNTERPARTS. This Agreement may be executed in any number
2 of counterparts, no one of which needs to be executed by all parties,
3 or may be ratified or consented to by separate instrument in writing
4 specifically referring hereto and shall be binding upon all those
5 parties who have executed such a counterpart, ratification, or consent
6 hereto with the same force and effect as if all such parties had signed
7 the same document and regardless of whether or not it is executed by
8 all other parties owning or claiming an interest in the lands within
9 the above-described Unit Area.

10 In the event any of the parties hereto own both Working
11 Interests and Royalty Interests, as such interests are shown on
12 Exhibit "B", it shall not be necessary for such party to execute this
13 Agreement in both capacities in order to commit both classes of interest.
14 Execution hereof by any such party in one capacity shall also constitute
15 execution in the other capacity.

16 33. ROYALTY OWNERS' TAXES. Unless otherwise specifically pro-
17 vided by law, each Royalty Owner shall render and pay all ad valorem
18 taxes, including ad valorem taxes measured by production levied against
19 its royalty or mineral interest. Unit Operator shall pay, as an agent
20 for the Working Interest Owners, each Royalty Owner's share of all
21 taxes other than ad valorem taxes levied on or measured by the Unitized
22 Substances in and under, or that may be produced, gathered, and sold
23 from the lands subject hereto, or upon the proceeds or net proceeds
24 derived therefrom, and shall pay ad valorem taxes to the extent that
25 the same are made payable by law by any Working Interest Owner. Each
26 Working Interest Owner shall reimburse Unit Operator for taxes so paid
27 on its behalf and such Working Interest Owner shall make proportionate
28 deductions of said amounts in settling with its Royalty Owners in each
29 separately owned Tract. No such taxes shall be charged to the United
30 States or the State of New Mexico or to any lessor who has a contract
31 with his lessee which requires the lessee to pay such taxes.

1 34. NO PARTNERSHIP. It is expressly agreed that the relation
2 of the parties hereto is that of independent contractors and nothing
3 in this Agreement contained, expressed or implied, nor any operations
4 conducted hereunder, shall create or be deemed to have created a part-
5 nership or association between the parties hereto or any of them.

6 35. BORDER AGREEMENTS. Unit Operator, subject to the provisions
7 of the Unit operating agreement and subject to approval of the Super-
8 visor, may enter into an agreement or agreements with the Working
9 Interest Owners of adjacent lands with respect to operations designed
10 to increase the ultimate recovery of oil and/or gas from the Unitized
11 Formation, prevent waste, and protect the correlative rights of the
12 parties.

13 36. CORRECTION OF ERRORS. It is hereby agreed by all parties
14 to this Agreement that Unit Operator is empowered to correct any
15 mathematical or clerical errors which may exist in the pertinent
16 exhibits to this Agreement; provided, however, that correction of
17 any error other than mathematical or clerical shall be made by
18 Unit Operator only after first having obtained approval of Working
19 Interest Owners and the Supervisor. If any such corrections are
20 made, Unit Operator shall file not less than six (6) copies of the
21 corrected pages of this Agreement or of the Exhibits hereto with the
22 Supervisor; Unit Operator shall also provide, in conformance with
23 Section 25, Notices, such corrected pages to the parties hereto.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

Date:

July 27, 1989

By 

EXHIBIT "A"
PROPOSED UNIT BOUNDARY WATERFLOOD UNIT

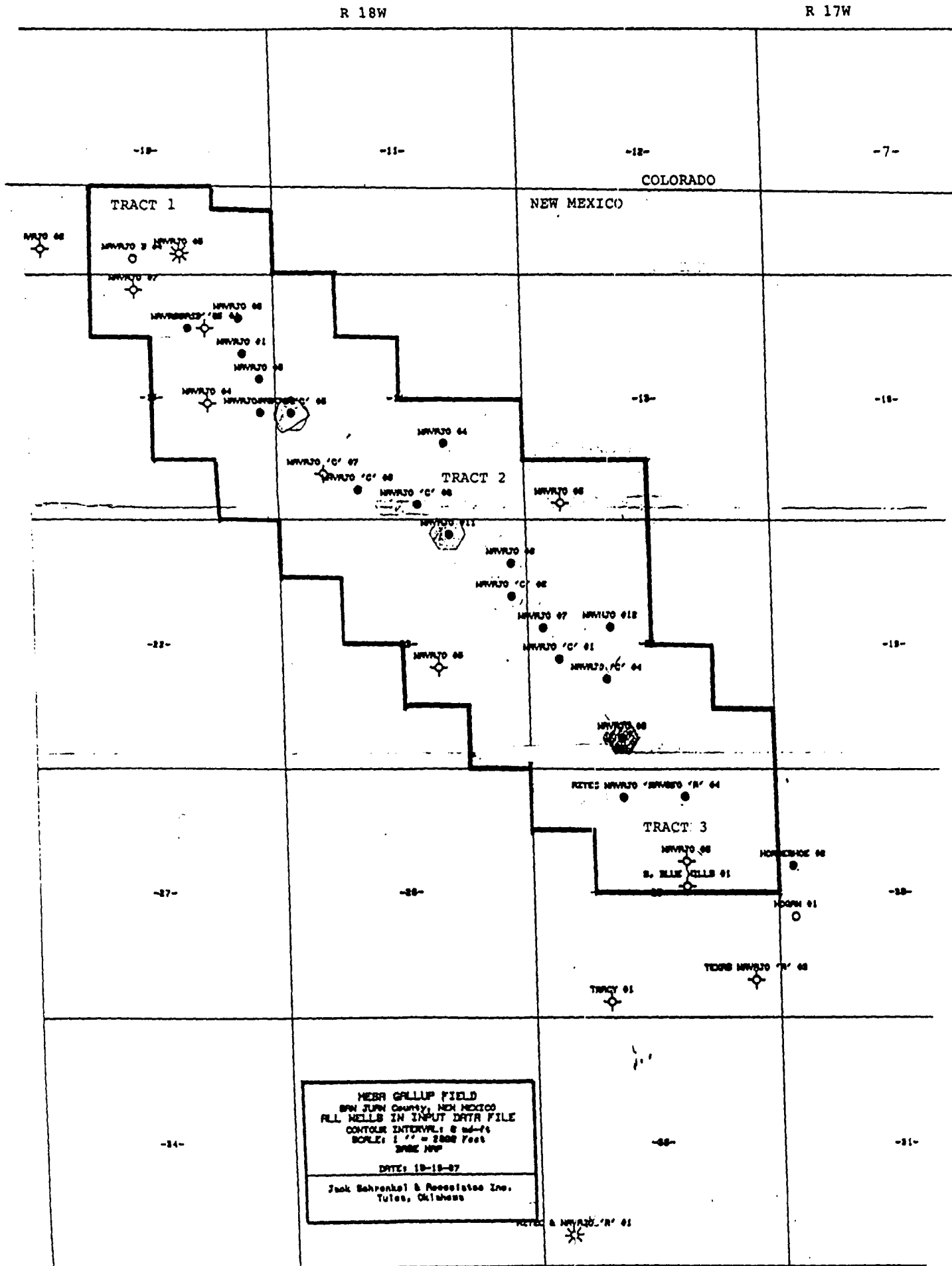


EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES

TRACT	DESCRIPTION	ACRES	SERIAL NO. EXPIRATION	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST (OPERATING RI COST (DECIMAL)
	S/2 SE/4, S/2 NWSE, SESW, S/2 NESW Sec. 10-32N-18W. NE, NENW, E/2 SE, NWSE Sec 15-32N-18W	480	1420603- 583	12.5	Texas Pacific Oil Company	0	Ari-Mex 1.00
	S/2 SW/4 Sec 13-32N-18W. W/2 NW/4 SENW, S/2 Sec 14-32N 18W. NWNW, E/2 NW, NE, SESE, N/2 SE, Sec 23- 32N-18W. W/2, SESE, W/2 SE Sec 24-32N-18W.	1,360	1420603- 584	12.5	21st Century Invsts Jack Schrenkel Grand Resources, Inc.	0	21st Century Invsts Jack Schrenkel Grand Resources, Inc. 67.5 25.0 7.5
	NE, NWNW, E/2 NW Sec 25-32N- 18W	280	I149IND- 7850	12.5	The Texaco Co.	.0273436	21st Century Invsts Jack Schrenkel Grand Resources, Inc. 67.5 25.0 7.5

EXHIBIT "C" (PAGE ONE)

** INTEREST IN EXPENSE (WORKING INTEREST) BY TRACTS ** 60% NET AF, 10% WELL, 30% CUM OIL **
 (& REVENUE INTEREST)

TRACT NUMBER	TRACT FACTOR	ARI-MEX EXPLORATION	21st Century INVESTMENTS	JACK SCHRENKEL	GRAND RESOURCES	NAVAJO NATION	TEXACO
1	.1542615	.1542615	-	-	-	-	-
WI 2	.7526852	-	.5080625	.1881712	.0564515	-	-
3	.0930533	-	.0628110	.0232633	.0069790	-	-
TOTAL	1.000000	.1542615	.5708735	.2114345	.0634305	-	-
TRACT NUMBER	TRACT FACTOR	ARI-MEX EXPLORATION	21st CENTURY INVESTMENTS	JACK SCHRENKEL	GRAND RESOURCES	NAVAJO NATION	TEXACO
1	.1542615	.1349788	-	-	-	.0192827	-
2	.7526852	-	.4445545	.1646500	.0493951	.0940856	
RI 3	.0930533	-	.0532421	.0197193	.0059158	.0116317	.0025444
TOTAL	1.000000	.1349788	.4977966	.1843693	.0553109	.1250000	.0025444

EXHIBIT "C"
(PAGE 2)

** MESA GALLUP WATER FLOOD PARAMETERS 12/88, JSA) **

<u>TRACT NO.</u>	<u>ACRES</u>	<u>GROSS-AF</u>	<u>NET-AF</u>	<u>NO. WELLS</u>	<u>CUM OIL</u>
1	480	1,325	1,050	6	91.30
2	1,360	8,095	6,400	12	435.22
3	280	1,220	890	2	35.65
TOTAL	2,120	10,640	8,340	20	562.17

UNIT OPERATING AGREEMENT
MESA GALLUP UNIT
SAN JUAN COUNTY, NEW MEXICO

Section	Page No.
Preliminary Recitals	1
ARTICLE 1	
CONFIRMATION OF UNIT AGREEMENT	1
ARTICLE 2	
EXHIBITS	
1. Exhibits "A" and "B"; Reference to Unit Agreement and Unit Interest	1
2. Exhibit "C"; Summary of Working Interests	1
3. Exhibit "D"; Insurance Provisions	1
4. Exhibit "E"; Accounting Procedure	1
5. Exhibit "F"; Certificate of Compliance	1
6. Exhibit "G"; Gas Balancing Agreement	1
7. Revision of Exhibits	1
8. Reference to Exhibits	1
ARTICLE 3	
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	
1. Overall Supervision	1
2. Particular Powers and Duties	1
a. Method of Operation	1
b. Drilling of Wells	2
c. Well Workovers and Change of Status	2
d. Expenditures	2
e. Amendment of Overhead Rates	2
f. Disposition of Surplus Facilities	2
g. Appearance Before a Court or Regulatory Body	2
h. Audit Exceptions	2
i. Assignments to Committees	2
j. Selection of Successor to Unit Operator	2
k. Enlargement of Unit Area	2
l. Investment Adjustment	2
m. Acquisition of Wells for Unit Operations	2
n. Termination of Unit Agreement	2
ARTICLE 4	
MANNER OF EXERCISING SUPERVISION	
1. Designation of Representatives	2
2. Meetings	2
3. Voting Procedure	2
a. Voting Interest	2
b. Vote Required	3
c. Vote at Meeting by Non-Attending Working Interest Owners	3
d. Poll Votes	3
ARTICLE 5	
INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS	
1. Reservation of Rights	3
2. Specific Rights	3
a. Access to Unit Area	3
b. Reports by Request	3
c. Audits	3

ARTICLE 6
UNIT OPERATOR

- | | |
|--|---|
| 1. Unit Operator | 4 |
| 2. Resignation or Removal of Unit Operator | 4 |
| 3. Successor Unit Operator | 4 |
| 4. Records and Information | 4 |

ARTICLE 7
POWERS AND DUTIES OF UNIT OPERATOR

- | | |
|---|---|
| 1. Exclusive Rights to Operate Unit | 4 |
| 2. Workmanlike Conduct | 4 |
| 3. Liens and Encumbrances | 4 |
| 4. Employees | 4 |
| 5. Records | 4 |
| 6. Reports to Working Interest Owners | 4 |
| 7. Reports to Governmental Authorities | 4 |
| 8. Engineering and Geological Information | 4 |
| 9. Expenditures | 5 |
| 10. Wells Drilled by Unit Operator | 5 |
| 11. Border Agreements | 5 |

ARTICLE 8
TAXES

- | | |
|--------------------------|---|
| 1. Ad Valorem Taxes | 5 |
| 2. Taxes and Assessments | 5 |
| 3. Income Tax Election | 5 |

ARTICLE 9
INSURANCE 6

ARTICLE 10
ADJUSTMENT OF INVESTMENTS

- | | |
|--|---|
| 1. Personal Property Taken Over | 6 |
| a. Wells and Well Equipment | 6 |
| b. Lease and Operating Equipment | 6 |
| c. Records | 6 |
| 2. Inventory and Evaluation of Personal Property | 6 |
| 3. Inventory and Valuations | 6 |
| 4. Investment Adjustment | 7 |
| 5. General Facilities | 7 |
| 6. Ownership of Personal Property and Facilities | 7 |

ARTICLE 11
WELLS

- | | |
|--------------------|---|
| 1. Existing Wells | 7 |
| 2. Necessary Wells | 7 |

ARTICLE 12
DEVELOPMENT AND OPERATING COSTS

- | | |
|--|---|
| 1. Basis of Charge to Working Interest Owners | 7 |
| 2. Advance Billings | 7 |
| 3. Commingling of Funds | 8 |
| 4. Lien and Security Interest of Unit Operator | 8 |
| 5. Unpaid Unit Expenses | 8 |
| 6. Carved-Out Interest | 8 |
| 7. Rentals | 8 |
| 8. Budgets | 8 |

ARTICLE 13
NON-UNITIZED FORMATIONS

- | | |
|---------------------|---|
| 1. Right to Operate | 9 |
|---------------------|---|

ARTICLE 14
TITLES

- | | |
|--|---|
| 1. Warranty and Indemnity | 9 |
| 2. Failure of Title Because of Unit Operations | 9 |

ARTICLE 15
LIABILITY, CLAIMS AND SUITS

- | | |
|-------------------------|---|
| 1. Individual Liability | 9 |
| 2. Settlements | 9 |

ARTICLE 16
NOTICES 10

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

- | | |
|-----------------------------|----|
| 1. Withdrawal | 10 |
| 2. Limitation on Withdrawal | 10 |

ARTICLE 18
ABANDONMENT OF WELLS

- | | |
|----------------------------|----|
| 1. Rights of Former Owners | 10 |
| 2. Plugging | 11 |

ARTICLE 19
EFFECTIVE DATE AND TERM

- | | |
|-------------------|----|
| 1. Effective Date | 11 |
| 2. Term | 11 |

ARTICLE 20
ABANDONMENT OF OPERATIONS

- | | |
|---------------------------|----|
| 1. Termination | 11 |
| a. Oil and Gas Rights | 11 |
| b. Right to Operate | 11 |
| c. Salvaging Wells | 11 |
| d. Cost of Abandonment | 11 |
| e. Distribution of Assets | 11 |

ARTICLE 21
LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

- | | |
|------------------------------|----|
| 1. Laws and Regulations | 11 |
| 2. Certificate of Compliance | 11 |

ARTICLE 22
EXCISE TAX PROVISIONS

- | | |
|---|----|
| 1. Crude Oil Excise Tax | 12 |
| 2. Amendment By Working Interest Owners | 12 |

ARTICLE 23
GOVERNMENTAL REGULATIONS 12

ARTICLE 24
COUNTERPART EXECUTION 12

UNIT OPERATING AGREEMENT
MESA GALLOP UNIT
SAN JUAN COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of JUNE, 1989, 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 that certain agreement entitled "Unit Agreement, Mesa Gallup Unit, San Juan County, New Mexico" hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners to provide for Unit Operations therein defined:

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

ARTICLE 2
EXHIBITS

The following exhibits are incorporated herein by reference or attachment:

1. Exhibits "A" and "B" of the Unit Agreement.
2. Exhibit "C", Parts I and II, attached hereto, is a summary showing each Working Interest Owner's Interest in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner.
3. Exhibit "D", attached hereto, contains insurance provisions applicable to Unit Operations.
4. Exhibit "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. In the event of conflict between this agreement and Exhibit "E", this agreement shall prevail.
5. Exhibit "F", attached hereto, contains Certificate of Compliance provisions provided for in Article 21.
6. Exhibit "G", attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.
7. Exhibit "H", attached hereto, contains provisions governing Operations by less than all parties.
8. Revision of Exhibits. Whenever Exhibit "A" or "B" are revised, Exhibit "C" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.
9. Reference to Exhibits. When reference is made herein to an exhibit it is to the exhibit as originally attached or, if revised to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY
WORKING INTEREST OWNERS

1. Overall Supervision. Subject to the other terms and provisions of this agreement and of the Unit Agreement, Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such power, 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.
2. Particular Powers - Duties. The Working Interest Owners, using the voting procedures given in Article 4.3, unless otherwise specifically provided in this Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:
 - a. Method of Operation. The kind, character and method of operation, including any type of pressure maintenance, secondary recovery or other enhanced recovery program to be employed.
 - b. Drilling of Wells. The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances; and the drilling of any well for injection, salt water disposal or for any other Unit purpose.
 - c. Well Workovers and Change of Status. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Article 3.2.d. hereinbelow; and the abandonment or change of status of any well in the Unit, or the use of any such well for injection or other purposes.
 - d. Expenditures. Making of any single expenditure in excess of Fifteen thousand (\$15,000.00) Dollars, except as provided in Article 7.9 hereof; provided that approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper 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.
 - e. Amendment of Overhead Rates. The amendment of the overhead rates provided for in Section III of Exhibit "E" if, as set forth in Section III.3 of Exhibit "E", such rates are found to be insufficient or excessive.
 - f. Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus unit material or equipment, the current list price of new equipment similar thereto being Fifteen thousand (\$15,000.00) Dollars or more.
 - g. Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.
 - h. Audit Exceptions. Any unresolved audit exceptions relating to audits as provided for in Exhibit "E".
 - i. Assignments to Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.
 - j. The selection of a successor to the Unit Operator.
 - k. The enlargement of the Unit Area.
 - l. The adjustment and readjustment of investments.
 - m. Acquisition of Wells for Unit Operations.
 - n. The termination of the Unit Agreement.

ARTICLE 4
MANNER OF EXERCISING SUPERVISION

1. Designation of Representatives. Each Working Interest Owner, other than individuals, shall advise Unit Operator in writing the names and addresses of its representative and alternate who are authorized to represent and bind it in respect to any matter pertaining to the development and

operation of the Unit area. Such representative or alternate may be changed from time to time by written notice to Unit Operator. Individual Working Interest Owners shall represent themselves, or may designate, in writing, an agent to so represent.

2. Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten (10%) percent. No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be Chairman of each meeting.

3. Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them, as follows:

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

b. Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of a majority of the Working Interest Owners; however, should any one Working Interest Owner have more than fifty percent (50%) of the voting interest, it must be joined by at least one other Working Interest Owner.

c. Voting at Meeting by Non-Attending Working Interest Owners. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting, providing such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

d. Poll Votes. Working Interest Owners may decide any matter by vote taken by letter or telegram, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called, as provided in Article 4.2, within fourteen (14) days after such proposal is dispatched to Working Interest Owners. Such vote will be final and Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5 INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

1. Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, powers, authority and privileges, except as expressly otherwise provided in this Agreement and in the Unit Agreement.

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

a. Access to Unit Area. Access to the Unit Area, at all reasonable times, to inspect the operations hereunder and all wells and records and data pertaining thereto.

b. Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data pertaining to Unit Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

c. Audits. The right to audit the accounts of Unit Operator according to the provisions of Exhibit "E".

ARTICLE 6
UNIT OPERATOR

1. Unit Operator. Grand Resources is hereby designated as Unit Operator.

2. Resignation or Removal. Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having fifty percent (50%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. If fifty percent (50%) of the remaining voting interest is held by one Working Interest Owners, such Working Interest Owner must be joined by at least one other Working Interest Owner to remove the Unit Operator.

3. Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners as provided in Section 8, of the Unit Agreement.

4. Records and Information. The Unit Operator resigning or being removed shall give complete cooperation to the new Unit Operator and shall deliver to its successor all records and information necessary to the discharge of the new Unit Operator's duties and obligations.

ARTICLE 7
POWERS AND DUTIES OF UNIT OPERATOR

1. Exclusive Rights to Operate Unit. Subject to the other 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 conduct Unit Operations.

2. Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or in similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations 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 the gross negligence or willful misconduct of Unit Operator.

3. Liens and Encumbrances. Unit Operator shall endeavor to keep the land and leases in the Unit Area, free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

4. Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours or labor and the compensation for services to be paid any and all such employees shall be determined by Unit Operator. Such employees shall be employed by Unit Operator.

5. Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

6. Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner periodic reports of the development and operation of the Unit Area.

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

8. Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the log of, and copies of engineering and geological data pertaining to any wells drilled by Unit Operator at Unit expense.

9. Expenditures. Unit Operator is authorized to make single expenditures not in excess of fifteen thousand (\$15,000.00) dollars 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 Owner, as promptly as possible, the nature of the emergency and the action taken.

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.

11. Border Agreements. Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 8 TAXES

1. Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions, whether on real or personal property and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such property taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest production payment or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date land shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Unit Operator, to protest and resist any such assessment.

2. Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, windfall profits tax and other taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

3. Income Tax Election. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the Parties hereto elects to be excluded from the application of all 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 the Code and the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each Party hereto give further evidence of this election, each such Party shall 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 in which the Unit Area is located or any future income tax law of the United States contain provisions similar to those 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 the Code is permitted, each of the Parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing election, each of the Parties states that the income

derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 9 INSURANCE

Insurance. Unit Operator, with respect to Unit Operations, shall:

- (a) comply with the Workmen's Compensation Laws of the State of New Mexico,
- (b) carry Employer's Liability and other insurance required by the laws of the State of New Mexico, and
- (c) provide other insurance as set forth in Exhibit "D".

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

1. Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator possession of:
 - a. Wells and Well Equipment. All wells located upon the Unit Area, together with the casing, tubing, and downhole equipment up to and including the christmas tree.
 - b. Lease and Operating Equipment. All lease and operating equipment, salt water disposal wells and facility systems related to the unitized formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations.
 - c. Records. A copy of all production and well records pertaining to any well which has historically or is currently producing from the Unitized Formation.
2. Inventory and Evaluation of Personal Property. 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 and 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. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least five (5) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit Operations. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May, 1971, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E", Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and necessary. It is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.
3. Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the provisions of Article 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations. Within sixty (60) days after receipt of such inventory and valuations each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all parties if approved by Working Interest Owners owning as much as fifty percent (50%) of the Working Interest in the Unit Area, provided, however, if fifty percent (50%) of the Working Interest in the Unit Area is owned by one Working Interest Owner, such Working Interest Owner must be joined by at least one other Working Interest Owner.

4. Investment Adjustment. As soon as practicable after approval by Working Interest Owners of the inventory and valuations as provided in Article 10.3, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Articles 10.1.a and 10.1.b, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Sections 10.1.a and 10.1.b by such Working Interest Owner's Unit Participation, as shown on Exhibit "C", attached hereto. 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.

5. General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facilities systems, and office building necessary for, and directly related to, Unit Operations shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

6. Ownership of Personal Property and Facilities. 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 equal to its Unit Participation, shown on Exhibit "C", attached hereto.

ARTICLE 11 WELLS

1. Existing Wells. All wells upon the Unit Area which have been completed for production within the unitized formation are deemed necessary for Unit Operations and shall be delivered to Unit Operator in accordance with Article 10.

2. Necessary Wells. In the event it becomes necessary, or advisable, that additional wells be drilled upon the Unit Area, whether for production purposes, disposal purposes or for use as injection wells, the costs thereof shall be a unit expense to be borne by all Working Interest Owners in accordance with Exhibit "C".

ARTICLE 12 DEVELOPMENT AND OPERATING COSTS

1. Basis of Charge to Working Interest Owners. Subject to the provisions of Section 12.2 hereof, Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expenses. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E" attached hereto. Each Working Interest Owner's share of such charges shall be the same as its Unit Participation. Operations by less than all parties shall be governed by the provision of Exhibit "H".

2. Advance Billings. Unit Operator shall have the right, as its option, to require other Working Interest Owners to advance their respective proportions of estimated development and operating costs and expenses by submitting to each other Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each such other Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustments 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.

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

4. Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of 1½% (one and one-half percent) per month. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

5. 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, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 12.4 of this agreement.

6. Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 12.4 hereof entitled "Lien and Security Interest of Unit Operator and Working Interest Owners." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 12.4 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

7. Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

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

ARTICLE 13
NON-UNITIZED FORMATIONS

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

2. Multiple Completions. No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion with the Unitized Formation unless such multiple completion and subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedure described in Article 4.3 of this Agreement.

ARTICLE 14
TITLES

1. Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest as shown to be owned by it on appropriate Exhibits to this Agreement and that such interest is not subject to any liens, mortgages or other encumbrances, hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to the failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will 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.

2. Failure of Title Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 15
LIABILITY, CLAIMS AND SUITS

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

2. Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed _____
Ten thousand (\$10,000.00) Dollars

and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "E". 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 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 Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 16

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 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

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

2. Limitation on Withdrawal. Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8th) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ARTICLE 18

ABANDONMENT OF WELLS

1. Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of sixty (60) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within sixty (60) days after said Working Interest

Owners have so notified Unit Operator of their desire to take over such well, they shall pay the Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well, except casing and other equipment originally contributed at no cost. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with all applicable laws and regulations.

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

ARTICLE 19 EFFECTIVE DATE AND TERM

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

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 Working Interest Owners in accordance with article 20 hereof, (b) all personal and real property acquired for the Joint Account of Working Interest Owners have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20 ABANDONMENT OF OPERATIONS

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

- a. Oil and Gas Rights. Oil and Gas Rights in and to each separate 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.
- b. Right to Operate. Working Interest Owners of any Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value, as determined by the Working Interest Owners, of the equipment in and on the well, except casing and other equipment originally contributed at no cost, and by agreeing to properly plug the well at such time as it is abandoned.
- c. Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.
- d. Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.
- e. Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof in proportion to their Unit Participations.

ARTICLE 21 LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

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

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

EXHIBIT "A"

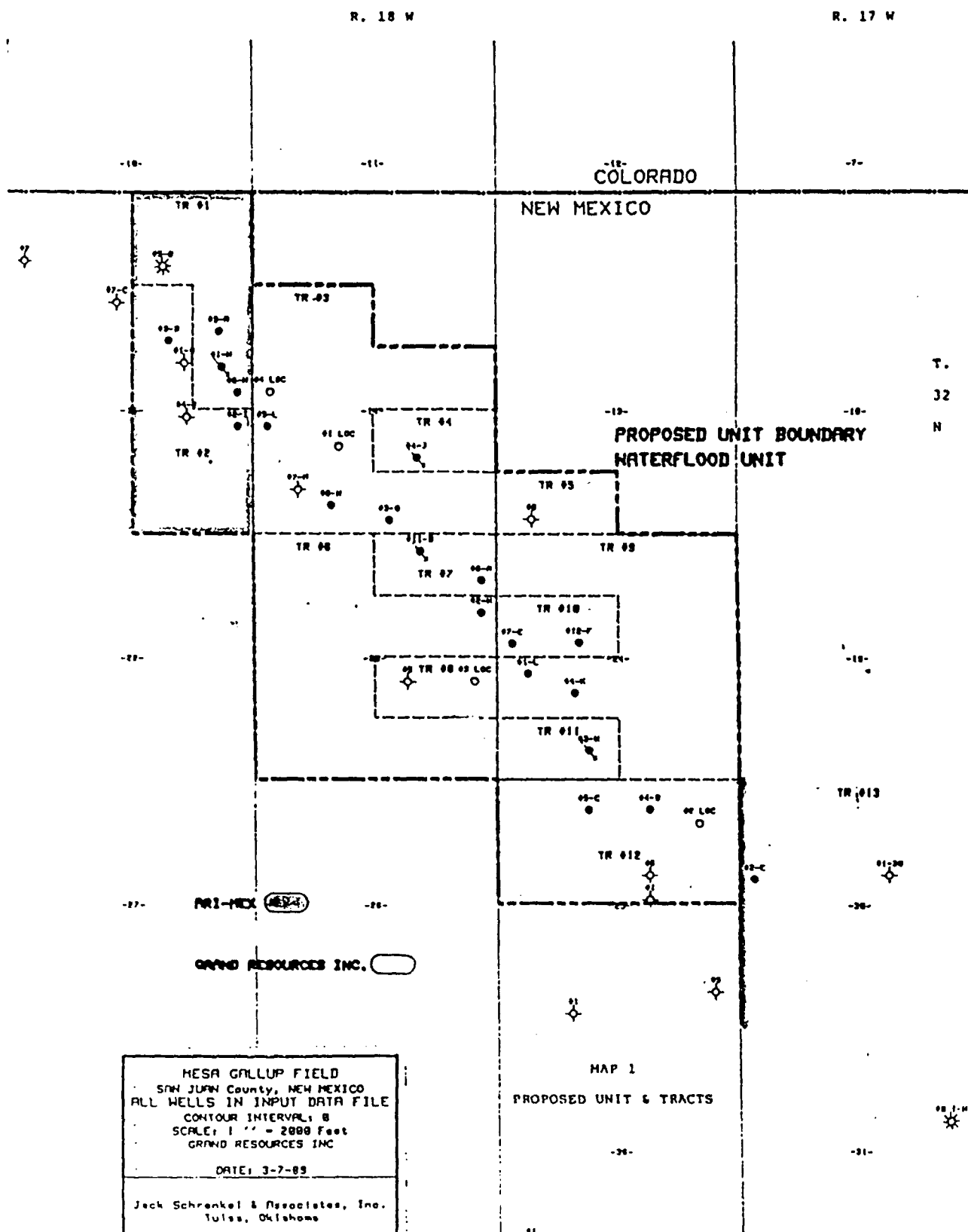


EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
MESA GALLUP RECOVERY UNIT
SAN JUAN COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION	ACRES	LEASE NO.	BASIC ROYALTY	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST (OPERATING RIGHTS)		
							NAME	COST (DECIMAL)	PRODUCTION (DECIMAL)
1	S $\frac{1}{2}$ SE $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$ SE $\frac{1}{4}$ 10, NE $\frac{1}{4}$ Sec 15-32N-18W	200	1420603- 583	12.5%	Texas Pacific Oil Company	-0-	ARI-MEX	1.00	.875
2	W/2 NE $\frac{1}{4}$, SE $\frac{1}{4}$ Sec 15-32N-18W	240	"	12.5%	Texas Pacific Oil Company	-0-	ARI-MEX	1.00	.875
3	W/2, S/2 NE $\frac{1}{4}$, S/2 SE $\frac{1}{4}$ Sec 14-32N-18W	480	1420603- 584	12.5%	21st Century Inv. Jack Schrenkel Grand Resources, Inc.	-0-	21st Century Invsts. Jack Schrenkel Grand Resources, Inc.	67.5 25.0 7.5	.590625 .21875 .065625
4	N/2 SE $\frac{1}{4}$ Sec 14-32N-18W	80	"	"	"	-0-	"	1.00	.875
5	S/2 SW $\frac{1}{4}$ Sec 13-32N-18W	80	"	"	"	-0-	"	"	"
6	W/2, S/2 NE $\frac{1}{4}$ S/2 SE $\frac{1}{4}$ Sec 23-32N-18W	480	"	"	"	-0-	"	"	"
7	N/2 NE $\frac{1}{4}$ Sec 23-32N-18W	80	"	"	"	-0-	"	"	"

EXHIBIT "B"

WORKING INTEREST (OPERATING RIGHTS)

** TRACT LEGAL DESCRIPTION AND CURRENT OPERATOR **

TRACT NO	DESCRIPTION	OPERATOR
1	SE/4 S10 - N/2 N/2 + E/2 NE/4 S15	ARI-MEX EXPLORATION
2	W/2 NE/4 + SE/4	ARI-MEX EXPLORATION
3	W/2 + N/2 NE/4 + N/2 SE/4 S14	GRAND RESOURCES
4	N/2 SE S14	GRAND RESOURCES
5	S/2 SW/4 S13	GRAND RESOURCES
6	W/2 + S/2 NE/4 + S/2 SE/4 S23	GRAND RESOURCES
7	N/2 NE/4 S23	GRAND RESOURCES
8	N/2 SE/4 S23	GRAND RESOURCES
9	E/2 + N/2 NW + N/2 SW/4 S24	GRAND RESOURCES
10	S/2 NW/4 S24	GRAND RESOURCES
11	S/2 SW/4 S24	GRAND RESOURCES
12	N/2 S25	GRAND RESOURCES

** MESA GALLUP WATER FLOOD PARAMETERS (12/88, JSA) **

TRACT NO	ACRES	GROSS-AF	NET-AF	NO WELLS	CUM OIL
1	200	970	805	4	80.88
2	240	355	245	2	10.42
3	480	3313	2800	3	97.76
4	80	167	100	1	3.70
5	80	155	40	0	0.00
6	480	489	330	1	47.34
7	80	810	760	2	88.16
8	80	60	30	0	0.00
9	480	1701	1120	2	68.53
10	80	565	430	2	72.81
11	80	835	790	1	56.92
12	320	1220	890	2	35.65
	2680	10640	8340	20	562.17

Revision. 5/4/89
to show inventory

AF Values for
Tracts 1 & 2.

JS

5/4/89 Revised Particular
Fails

** INTEREST IN EXPENSE (WORKING INTEREST) BY TRACTS ** 60% NET AF, 10% WELL, 30% CUM OIL **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RSC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1210750	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
2	.0331865	0.0000000	0.0000000	0.0000000	0.0000000	0.0000000
3	.2686081	.1813105	.0671520	.0201456	0.0000000	0.0000000
4	.0141687	.0095639	.0035422	.0010627	0.0000000	0.0000000
5	.0028777	.0019424	.0007194	.0002158	0.0000000	0.0000000
6	.0540038	.0364526	.0135010	.0040503	0.0000000	0.0000000
7	.1117225	.0754127	.0279306	.0083792	0.0000000	0.0000000
8	.0021583	.0014568	.0005396	.0001619	0.0000000	0.0000000
9	.1271463	.0858238	.0317866	.0095360	0.0000000	0.0000000
10	.0797900	.0538583	.0199475	.0059843	0.0000000	0.0000000
11	.0922097	.0622415	.0230524	.0069157	0.0000000	0.0000000
12	.0930533	.0628110	.0232633	.0069790	0.0000000	0.0000000
1.0000000	.1542615	.5708735	.2114346	.0634305	0.0000000	0.0000000

** INTEREST IN NET REVENUE BY TRACTS **

TRACT NO. TRACT FACTOR	ARI-MEX EXPLORATION	21th CENTURY INVESTMENT C	JACK SCHRENKEL	GRAND RSC. INCORPORATED	NAVAJO NATION	TEXACO
1	.1210750	0.0000000	0.0000000	0.0000000	.0151344	0.0000000
2	.0331865	0.0000000	0.0000000	0.0000000	.0041483	0.0000000
3	.2686081	.1586467	.0587580	.0176274	.0335760	0.0000000
4	.0141687	.0083684	.0030994	.0009299	.0017211	0.0000000
5	.0028777	.0016996	.0006295	.0001888	.0003597	0.0000000
6	.0540038	.0318960	.0118134	.0035440	.0067505	0.0000000
7	.1117225	.0659861	.0244393	.0073318	.0139653	0.0000000
8	.0021583	.0012747	.0004722	.0001417	.0002698	0.0000000
9	.1271463	.0750958	.0278133	.0083440	.0158933	0.0000000
10	.0797900	.0471260	.0174541	.0052363	.0099738	0.0000000
11	.0922097	.0544613	.0201709	.0060512	.0115262	0.0000000
12	.0930533	.0532421	.0197193	.0059158	.0116317	.0025444
1.0000000	.1349788	.4977968	.1843692	.0553109	.1250000	.0025444

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF UNIT OPERATING
AGREEMENT FOR THE MESA GALLUP UNIT, DATED
JUNE 1, 1989. GRAND RESOURCES, INC., OPERATOR.

Operator and 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 \$500.00, and Workmen's Compensation Insurance covering Operator's employees and 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 Liability Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors in the amount of \$1,000.000 combined single limit or equivalent.
- C. Automobile Liability and Property Damage Insurance covering the parties hereto in connection with all operations conducted by Operator or Operator's contractors and subcontractors with a combined Bodily Injury and Death limit of \$1,000.000.

EXHIBIT " E "

Attached to and made a part of UNIT OPERATING AGREEMENT FOR MESA GALLUP
UNIT, (SECONDARY RECOVERY), GRAND RESOURCES, INC., UNIT OPERATOR

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.

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 Refer to Article 12. of the Agreement for Operator's Lien and additional provisions.

- A. 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 within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- B. 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 1½% (one and one-half) ~~on the first day of the month in which delinquency occurs plus 10% as 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. 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 a joint audit 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. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

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

6. Approval By Non-Operators Refer to Article 4. of the Agreement for voting procedures.

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. Ecological and Environmental

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

2. Rentals and Royalties

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

3. 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.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies, or twenty-six percent (26%), whichever percent is higher.

5. 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.

6. 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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

8. 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 gross investment less accumulated depreciation not to exceed eight percent (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 8A 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.

9. 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.

10. 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.

11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. 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 Worker'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.

13. Abandonment and Reclamation

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

14. Communications

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

15. 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 of direct benefit to the Joint Property and 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:

(XX) 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 3A, 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 be covered by the overhead rates, or
 (XX) shall not be covered by the overhead rates.

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

() shall be covered by the overhead rates, or
 (XX) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 3,500.00
 (Prorated for less than a full month)

Producing Well Rate \$ 325.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
 - (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 1991 and each year thereafter to which this Accounting Procedure is attached. The adjustment shall be the greater of either (1) an amount 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 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; or (2) the Median Monthly Producing Well Rates for the preceding calendar year for Oil Wells in the "Colorado Plateau, Basin and Region - 3" as set forth in the most recent Ernst & Whinney "Survey of Combined Fixed-Rate Overhead Charges for Oil and Gas Producers."

~~(a) Development~~~~Percent () of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~~~(b) Operating~~~~Percent () of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 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 rig and crew capable of drilling to the producing interval on the Joint Property; 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 \$~~ _____ :

- A. _____ % of first \$100,000 or total cost if less, plus
 B. _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus
 C. _____ % of 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 and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

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

- A. * _____ % of total costs through \$100,000; plus
 B. * _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
 C. * _____ % of total costs in excess of \$1,000,000. *Prime Rate as shown by the Wall Street Journal on the day of the occurrence plus 2%.

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

4. 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 reasons, 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 basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

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

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

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

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

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

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

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

C. Other Used Material

(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 A. 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

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

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (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

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except in inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "F"

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

Provided however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

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

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

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

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

III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

IV. VETERAN'S PREFERENCE

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

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

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

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

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

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

- (1) No facility to be utilized by Subcontractor in the performance of this contract with Operator is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR § 15.20.
 - (2) Prompt written notification shall be given by Subcontractor to Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.
 - (3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. § 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. § 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.
 - (4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR § 15.4 & 5.
 - (5) Operator agrees to notify non-operators of any violations in the afore provisions
- VI. Operator agrees to comply with Executive Orders 11458 and 11625 regarding Minority Business Enterprises and all orders, rules, and regulations issued thereunder or amendments thereto.
- VII. Operator agrees to comply with Rehabilitation Act of 1973 and all orders, rules and regulations issued thereunder and amendments thereto.

EXHIBIT "G"

GAS STORAGE AND BALANCING PROVISION

During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce each month one hundred per cent (100%) of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and each of such parties shall take its pro-rata share. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of condensate recovered.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. In addition to its share, each party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five per cent of each over-produced party's share of gas produced. If more than one party is entitled to the additional gas produced, they shall divide such additional gas in accordance with Unit participation. In the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, a complete balancing shall be accomplished by a money settlement. Such settlement shall be based upon the weighted average price received by each over-produced party for its share of gas produced and sold.

At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interest, and other payments out of or in lieu of production for which it is responsible, as if each party were taking or delivering to a purchaser its share, and its share only, or such gas production. Each party hereto agrees to hold each party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Agreement are recovered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Agreement, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this Agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Agreement, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

EXHIBIT H

Operations by Less than All Parties: If any party receiving such notice as provided in Articles 4 and 16 elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of a notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to these provisions shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendations as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "B", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Agreement results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with these provisions of this Agreement, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Agreement, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.