

BEFORE EXAMINER STOGNER

OIL CONSERVATION DIVISION

~~MAR 2008~~ EXHIBIT NO. 4

CASE NO. 10810

UNIT OPERATING AGREEMENT
BURCH-KEELY UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of July, 1993 by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

W I T N E S S E T H:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, Burch-Keely Unit, Eddy County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

Article 2

EXHIBITS

2.1 Exhibits.

2.1.1 Exhibits A, B, and C, of the Unit Agreement are incorporated herein by reference.

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

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

2.2 Revision of Exhibits. Whenever Exhibits A, B or C are

revised, Exhibit D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit D from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

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

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

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

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or permanent change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Fifty Thousand Dollars (\$50,000.00); however; approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

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

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before

any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

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

3.2.8 Technical Services. The authorizing of charges to the Joint Account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.1.9 Committees. The appointment of committee to study any problems in connection with Unit Operations.

3.1.10 Removal of Operator. The removal of Unit Operator and the selection of a successor.

3.1.11 Changes and Amendments. The changing of the Unit Area or the amending of this Agreement or the Unit Agreement as provided in Article 24 of the Unit Agreement.

3.1.12 Investment Adjustment. The adjustment and readjustment of investments.

3.1.13 Termination of Unit Agreement. The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation then in effect of not less than Forty percent (40%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended

item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of 2 or more Working Interest Owners having a combined voting interest of at least fifty percent (50%); however, should any one Working Interest Owner have more than thirty percent (30%) voting interest, its negative vote or failure to vote shall not defeat a motion, and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless three or more Working Interest Owners having a combined voting interest of at least fifty percent (50%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Nonattending Working Interest Owners. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting, provided the agenda items are not amended.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

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

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

5.2.3 Audits. The right to audit the accounts of Unit Operator pertaining to Unit Operations according to the provisions of Exhibit C.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Marbob Energy Corporation is hereby designated as the initial Unit Operator.

6.2 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 sixty percent (60%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of three (3) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the removed Unit Operator fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having seventy percent (70%) or more of the voting interest remaining after excluding the voting interest of the removed Unit Operator.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

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

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and lease in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operators, except the lien and security interest of Unit Operator and Working Interest Owners granted hereunder.

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

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

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

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

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

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

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interests production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

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

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

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

- 10.1.1 Wells. All wells completed in the Unitized

Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records for such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit D except, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.

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

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

10.4 General Facilities. The acquisition of warehouse, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all

personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of unit operating expense in proportion to the respective Unit Participations of the parties hereto in effect at the time such expense was incurred.

11.2 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 September 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.

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 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 ten percent (10%) per annum. 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 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.

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

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

11.8 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.

11.9 Carved-out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operators 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 such 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 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 12

NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner 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 Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit "B" of the Unit Agreement, and agrees to indemnify and hold harmless the

other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 A.M. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

13.2 Failure 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 Participation of the other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed One Hundred Thousand Dollars (\$100,000.00) 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, including delegation to the Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations 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.

14.3 Litigation Involving Unit. All litigation, and all settlements or liability of damages arising thereunder, involving

or arising out of Unit Operations (specifically including but not limited to actions by third parties claiming damages by virtue of Unit Operations) shall be deemed a Unit Expense under Article 11 hereof.

ARTICLE 15

LAWS AND REGULATIONS

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and 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 hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of 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 of the returns, statements, and the data required by Federal Regulations 1.761-2. Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the 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 agrees to make such election as may be permitted, or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

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

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, 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 interest 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 date of transfer shall be the effective date, the withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of sixty (60) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage values, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

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

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

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

ARTICLE 21

EXECUTION

21.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party to this Agreement by signing the original of this instrument, and counterpart thereof, or other instrument agreeing to become a party hereto. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 22

SUCCESSORS AND ASSIGNS

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

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

MARBOB ENERGY CORPORATION

Date:

July 1, 1993

By:

Raye Miller
Attorney-in-Fact Raye Miller

PITCH ENERGY CORPORATION

Date:

July 1, 1993

By:

John R. Gray
Its:

JOHN R. GRAY, TRUSTEE OF THE JOHN R. GRAY TRUST, u/t/a dated October 3, 1984

Date:

July 1, 1993

By:

John R. Gray
John R. Gray, Trustee

RAYE MILLER

Date:

July 1, 1993

Raye Miller

J. T. THOMPSON

Date:

July 1, 1993

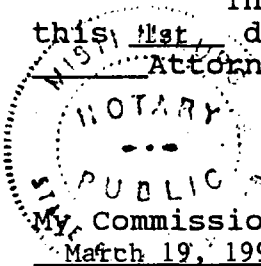
J. T. Thompson

STATE OF NEW MEXICO)

: ss.

COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 1st day of July, 1993 by Raye Miller Attorney-in-Fact on behalf of MARBOB ENERGY CORPORATION.



Misti McLurg
Notary Public

STATE OF NEW MEXICO)
 : ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me
this 1st day of July, 1993 by John R. Gray
President on behalf of PITCH ENERGY

CORPORATION.



My Commission Expires:
March 19, 1995

Misti McLurg
Notary Public

STATE OF NEW MEXICO)
 : ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me
this 1st day of July, 1993 by John R. Gray,
Trustee of the John R. Gray Trust.

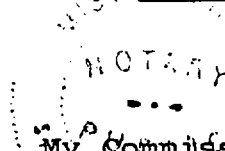


My Commission Expires:
March 19, 1995

Misti McLurg
Notary Public

STATE OF NEW MEXICO)
 : ss.
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me
this 1st day of July, 1993 by Raye Miller.



My Commission Expires:
March 19, 1995

Misti McLurg
Notary Public

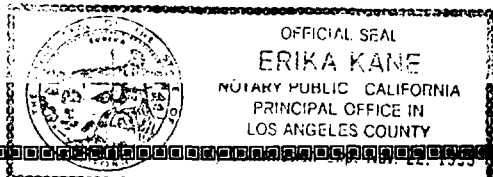
STATE OF)
COUNTY OF) : ss.

The foregoing instrument was acknowledged before me
this ____ day of _____, 1993 by J. T. Thompson.

Notary Public

My Commission Expires:

ALL-PURPOSE ACKNOWLEDGMENT

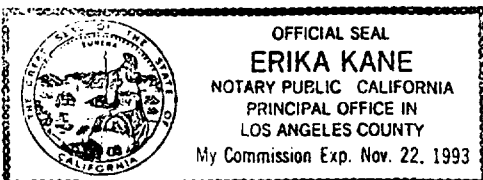


State of CALIFORNIA
County of LOS ANGELES

On 07-02-93 before me, ERIKA KANE, NOTARY PUBLIC
DATE NAME, TITLE OF OFFICER - E.G. "JANE DOE, NOTARY PUBLIC"

personally appeared J. T. THOMPSON
NAME(S) OF SIGNER(S)

☐ personally known to me • OR • ☒ proved to me on the basis of satisfactory evidence
to be the person~~s~~ whose name~~s~~ is/~~are~~
subscribed to the within instrument and
acknowledged to me that he/~~she~~/~~they~~
executed the same in his/~~her~~/~~their~~ authorized
capacity~~(ies)~~, and that by his/~~her~~/~~their~~
signature~~s~~ on the instrument the person~~s~~
or the entity upon behalf of which the
person~~s~~ acted, executed the instrument.



Witness my hand and official seal.

Erika Kane
SIGNATURE OF NOTARY

OPTIONAL SECTION

CAPACITY CLAIMED BY SIGNER

Though statute does not require Notary to fill in
the data below, doing so may prove invaluable
to persons relying on the document.

- ☐ INDIVIDUAL
☐ CORPORATE OFFICER(S)

TITLE(S)

- ☐ PARTNER(S) ☐ LIMITED
☐ GENERAL
☐ ATTORNEY-IN-FACT
☐ TRUSTEE(S)
☐ GUARDIAN/CONSERVATOR
☐ OTHER: _____

SIGNER IS REPRESENTING:

NAME OF PERSON(S) OR ENTITY(IES)

OPTIONAL SECTION

THIS CERTIFICATE MUST BE ATTACHED TO
THE DOCUMENT DESCRIBED AT RIGHT:

Title or Type of Document _____

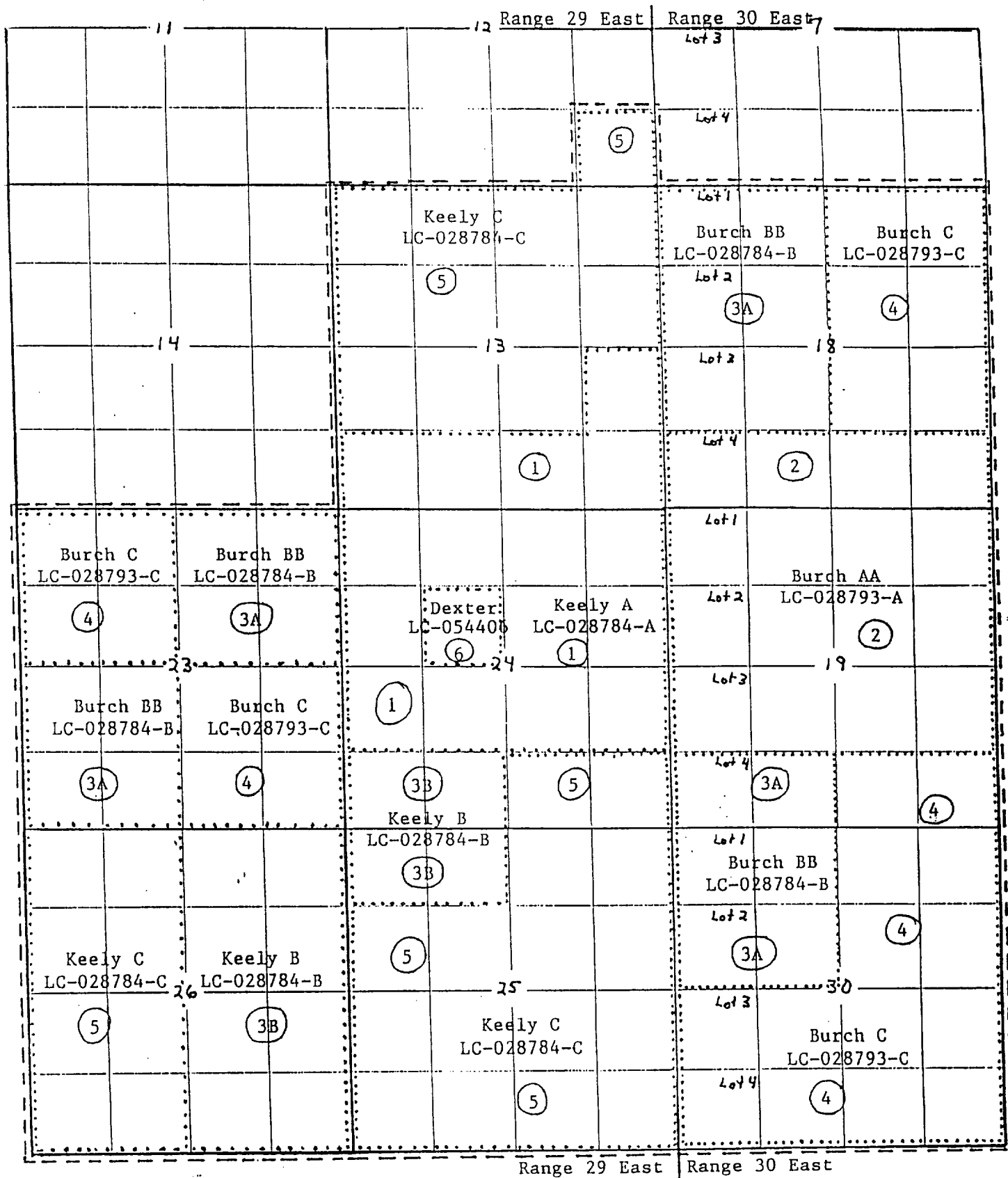
Number of Pages _____ Date of Document _____

Though the data requested here is not required by law,
it could prevent fraudulent reattachment of this form.

Signer(s) Other than Named Above _____

EXHIBIT A

TOWNSHIP 17 South RANGE 29,30 East COUNTY Eddy STATE New Mexico



Legend

- Unit Boundary
- Tract Boundary
- 2- Section Number
- (9) Tract Number

BURCH-KEELY UNIT
TOTAL UNIT ACREAGE 5129.44

EXHIBIT "B"
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS
IN ACCORDANCE WITH THE PARTICIPATION FORMULA FOR THE UNITIZED FORMATION OF THE
BURCH/KEELY UNIT AREA
EDDY COUNTY, NEW MEXICO

MARCH 13, 1993

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. AND EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	PARTICIPATION OF TRACT IN UNIT
1 Keely A	T7S-R29E, N.M.P.M. Sec. 13: NE/4 SE/4, S/2 S/2 Sec. 24: N/2 NW/4, SW/4 NW/4, NE/4, N/2 S/2	640.00	LC-028784-A (HBP)	U.S.A. (5%)	Phillips Oil Company (100.00%)	Wilbur John Acree - .000736500 ORRI Chester J. Acree and Jean Acree, Trustees of the Acree Family Trust u/t/a dated 9-30-88 - .000736500 ORRI Mrs. Buena Barker - .005000000 ORRI Hugh Ross Burch - .000234400 ORRI June Burch - .000781000 ORRI Childress Royalty Co. - .001171900 ORRI Robt. Christian Dexter - .000263700 ORRI Robt. F. Dexter - .001171900 ORRI Robt. E. Downer - .000267900 ORRI Barbara K. Frankenfield - .000039100 ORRI Higgins Trust Inc. - .016875000 ORRI Dorothy G. Kemper - .001041700 ORRI A.D. Kennedy & - .003125000 ORRI & Ruby Kennedy Rolla L. Long, Jr. - .007500000 ORRI Marshall & Winston, Inc. - .015000000 ORRI Jack W. McCaw - .001041600 ORRI Carol L. McCutcheon - .000235000 ORRI Leo Vernon Mock & Lucile Mock, Trustees of the Mock Family Trust, u/t/a dated 5-20-91 - .000669700 ORRI Carol Jean D. Purcell - .000263700 ORRI Mrs. C.A. Russell - .002500000 ORRI Savine Royalty Trust, NationsBank of Texas, N.A., Escrow Agent - .005000000 ORRI Albert Smith & Dorothy Smith - .000050200 ORRI Mary Ann Stokes - .000050300 ORRI Sandra Leigh Terry - .000039100 ORRI Susan Lynn Terry - .000039100 ORRI Dolores J. Thomas - .001113300 ORRI Margaret Louise Treat - .000200900 ORRI	Martob Energy Corp 23.75% Pitch Energy Corp 23.75% J.R. Gray Trust 47.5 % Raye Miller 2.5 % J. T. Thompson 2.5 %	9.7227%

2	Burch A.A	T17S-R30E, N.M.P.M. Sec. 18: Lot 4 SE/4 SW/4, S/2 SE/4 Sec. 19: Lots 1,2,3, NE/4, E/2 NW/4, NE/4 SW/4, N/2 SE/4	629.700	LC-028793-A (HBP)	U.S.A. (5%)	Phillips Petro. Corp. (100.00%)	First City Texas Houston, N.A. Trustees U/W Marguerite Smith Walker Trust 10038500 - .002500000 ORRI Charlene M. Ward, Testamentary Trustee under the Will of E.H.Ward, deceased for the benefit of Jennie Ward Vukich - .001041700 ORRI Charlene M. Ward, Testamentary Trustee under the Will of E.H.Ward, deceased for the benefit of Stephen Sterling Ward - .001041700 ORRI Charlene M. Ward, Testamentary Trustee under the Will of E.H.Ward, deceased for the benefit of Sara Ward Sims - .001041600 ORRI Kurt A. Weber - .000050200 ORRI Virginia Weber - .000050200 ORRI Bettye B. White - .001041700 ORRI James T. Wyman and Frederick Winston, Trustees under the Will of Francisca S. Winston - .003750000 ORRI Raye Miller - .005000000 ORRI David G. Martin - .002500000 ORRI	23.75% 23.75% 47.5 % 2.5 % 2.5 %
							Aline Byer - .000006900 ORRI Marbob Energy Corp Sidney Mourning - .000055600 ORRI Pitch Energy Corp Mack Purcell - .000166600 ORRI J.R. Gray Trust Gary R. Purcell - .000027800 ORRI Raye P. Miller Thomas G. Purcell - .000027800 ORRI J.T. Thompson Helen Reed - .000166600 ORRI Hazel Turner - .000027800 ORRI Frank W. Addis - .000430600 ORRI Frank A. Addis - .000027800 ORRI Roy C. Andrews - .000027800 ORRI NationsBank of Texas, N.A., Independent Executor and Trustee U/W of Selma E. Trust #5188 - .002685300 ORRI Peggy F. Ashbrenner - .000006900 ORRI Betty Jean Banks - .000013900 ORRI Braille Institute of America, Agency #631-00 - .002314700 ORRI Leona L. Bryant - .002500000 ORRI Mazine Cole - .000006900 ORRI Robin W. Crouse,Jr. - .002500000 ORRI Ronald K. Deford - .005000000 ORRI Mr. Edward Dreesen,Jr. - .000300000 ORRI	23.75% 23.75% 47.5 % 2.5 % 2.5 %

3A Burch BB T17S-R29E, N1/4, SW/4
 Sec. 23: NE/4, SW/4 784.52 LC-028784-B
 (HBF) U.S.A.
 (12.5-32%) Phillips Oil Company
 (100%)

Ingrid Dressen Powell, Trustee for the
 Betty Kyie Dressen Irrevocable
 Trust of 12/23/58 - .001900000 ORRI
 Vallery Sue Freeman - .001250000 ORRI
 Higgins Trust Inc. - .005000000 ORRI
 David B. Kyie - .002500000 ORRI
 Clyde Le Force, Jr. - .000013900 ORRI
 Max Le Force - .000069000 ORRI
 Mrs. Walter Le Force - .000013900 ORRI
 James R. LeForce - .000069000 ORRI
 Rolla L. Long, Jr. - .002500000 ORRI
 Judy Addis Mack - .000430600 ORRI
 Marshall & Winston, Inc. - .005000000 ORRI
 Wayne McCann - .005000000 ORRI
 Richard Lee Mourning - .000013900 ORRI
 Robt. Alan Mourning - .000013900 ORRI
 Roger William Mourning - .000013900 ORRI
 Ronald Eugene Mourning - .000069000 ORRI
 Betty Jane Pettigrew - .000300000 ORRI
 Mrs. Ingrid Powell - .000055600 ORRI
 Robert R. Purcell - .000055600 ORRI
 Frank H. Purcell Trust - .000027800 ORRI
 Alice Rankin - .001250000 ORRI
 B. F. Rose, III
 First City Texas Houston, N.A. Trustee
 U/W Marguerite Smith - .002500000 ORRI
 Walker Trust 10038500 - .010000000 ORRI
 W. G. Welter - .010000000 ORRI
 United New Mexico Trust Company, Trustee
 for George H. & Lois M. Williams
 Donald R. Wilson - .005000000 ORRI
 James T. Wyman and Frederick Winston,
 Trustees under the Will of Francisca
 S. Winston - .015000000 ORRI
 Raye Miller - .005000000 ORRI
 David G. Martin - .002500000 ORRI
 Raye Miller - .005000000 ORRI
 David G. Martin - .002500000 ORRI
 Raye Miller - .005000000 ORRI
 David G. Martin - .002500000 ORRI
 Marbob Enc
 Puch Energy
 I.R. Gray Tr
 Raye P. Mill
 J. T. Thomp

3B	Keely B	<u>T17S-R30E, N.M.P.M.</u> Sec. 18: Lots 1,2 and 3, E/2 NW/4, NE/4 SW/4 Sec. 19: Lot 4, SE/4 SW/4 Sec. 30: Lots 1 & 2, E/2 NW/4	480.00	LC-028784-B (formerly LC-028793(b)) (HBP)	U.S.A. (12.5-32%)	Phillips Oil Company (100%)	Raye Miller David G. Martin	- .00500000 ORRI - .00250000 ORRI	Marbob Energy Corp Pitch Energy Corp J.R. Gray Trust Raye P. Miller J. T. Thompson	23.75% 23.75% 47.5 % 2.5 % 2.5 %	14.4570%
		<u>T17S-R29E, N.M.P.M.</u> Sec. 24: S/2 SW/4 Sec. 25: N/2 NW/4 Sec. 26: E/2									
4	Burch C	<u>T17S-R29E, N.M.P.M.</u> Sec. 23: NW/4, SE/4 <u>T17S-R30E, N.M.P.M.</u> Sec. 18: NE/4, N/2 SE/4 Sec. 19: S/2 SE/4 Sec. 30: Lots 3,4, E/2 SW/4, E/2	1,115.220	LC-028793-C (HBP)	U.S.A. (sliding Schedule D)	Phillips Pet. Corp. (100%)	Wilbur John Acree Chester J. Acree and Jean C. Acree, Trustees of the Acree Family Trust u/i/a 9-30-88 Wilma Connor Robert C. Dexter Robert F. Dexter Robert E. Downer Leo Vernon Mock & Lucile Mock, Trustees of the Mock Family Trust u/i/a dated 5/20/91 Carol Jean D. Purcell Albert Smith & Dorothy Smith Dorothy Smith Mary Ann Stokes Dolores J. Thomas Margaret Louise Treat Kurt A. Weber Virginia Weber Raye Miller David G. Martin	- .003273900 ORRI - .003273800 ORRI - .012500000 ORRI - .001171900 ORRI - .005208300 ORRI - .001190500 ORRI - .002976200 ORRI - .001171900 ORRI - .000223200 ORRI - .012500000 ORRI - .000223200 ORRI - .004947900 ORRI - .000892800 ORRI - .000223200 ORRI - .000223200 ORRI - .005000000 ORRI - .025000000 ORRI	Marbob Energy Corp Pitch Energy Corp J.R. Gray Trust Raye P. Miller J. T. Thompson	23.75% 23.75% 47.5 % 2.5 % 2.5 %	20.3547%
5	Keely C	<u>T17S-R29E, N.M.P.M.</u> Sec. 12: SE/4 SE/4 Sec. 13: N/2, N/2 SW/4, NW/4 SE/4	1,440.00	LC-028784-C (HBP)	U.S.A. (Sliding Schedule D)	General American Oil Company (now Phillips Petro. Corporation) (100%)	Wilbur John Acree Chester J. Acree and Jean C. Acree, Trustees of the Acree Family Trust u/i/a dated 9-30-88	- .003273700 ORRI - .003273700 ORRI	Marbob Energy Corp Pitch Energy Corp J.R. Gray Trust Raye P. Miller	23.75% 23.75% 47.5 % 2.5 %	25.9897%

Sec. 24: S/2 SE/4
 Sec. 25: E/2, S/2 NW/4,
 SW/4
 Sec. 26: W/2

6 Dexter T17S-R32E, N.M.P.M. 40.00 LC-054406 U.S.A. General American Oil
 Sec. 24: SE/4 NW/4 (HBP) (12.5-32%) Company (now Phillips
 Petroleum Corporation
 (100%))

Wilma Connor - .012500000 ORRI J.T. Thompson 2.5 %
 Robt. Christian Dexter - .001171900 ORRI
 Robt. F. Dexter - .005208300 ORRI
 Robt. E. Downer - .001190600 ORRI
 Leo Vernon Mock & Lucile Mock, Trustees
 of the Mock Family Trust, u/1/a dated
 5-20-81 - .002976200 ORRI
 Carol Jean D. Purcell - .001171900 ORRI
 Albert Smith &
 Dorothy Smith - .000223200 ORRI
 Dorothy Smith - .012500000 ORRI
 Mary Ann Stokes - .000223200 ORRI
 Dolores J. Thomas - .004948100 ORRI
 Margaret Louise Treat - .000892800 ORRI
 Kurt A. Weber - .000223200 ORRI
 Virginia Weber - .000223200 ORRI
 Raye Miller - .005000000 ORRI
 David G. Martin - .002500000 ORRI
 Raye Miller - .005000000 ORRI Martob Energy Corp 23.75%
 David G. Martin - .025000000 ORRI Pitch Energy Corp 23.75%
 J.R. Gray Trust 47.5 %
 Raye P. Miller 2.5 %
 J. T. Thompson 2.5 %

SUMMARY OF ACREAGE:

	<u>ACRES</u>	<u>% OF UNIT</u>
Federal	5,129.44	100%
State	-0-	-0-
Fee	-0-	-0-
	<u>5,129.44</u>	<u>100%</u>

TRACT PARTICIPATION FACTORS
BURCH-KEELY UNIT, GRAYBURG JACKSON FIELD
EDDY COUNTY, NEW MEXICO

		A		C		E		G	
		CUMULATIVE OIL PRODUCTION AT 12/31/92		CONTINUED OPERATIONS FUTURE RESERVES		1992 (12 MONTHS) PRODUCTION		UNIT OPERATIONS FUTURE RESERVES	
TRACT	LEASE	STB*	TRACT FACTOR	STB	TRACT FACTOR	STB	TRACT FACTOR	STB	TRACT FACTOR
2	Burch AA Federal	3,001,929	0.160037	85,763	0.057668	8,852	0.049707	773,999	0.133544
3A	Burch BB Federal	3,104,923	0.165527	218,047	0.146618	27,311	0.153361	910,814	0.157150
4	Burch C Federal	2,512,394	0.133939	503,813	0.338770	62,370	0.350230	1,169,648	0.201808
6	Dexter Federal	155,580	0.008294	8,865	0.005961	1,135	0.006373	62,492	0.010782
1	Keely A Federal	2,104,061	0.112170	104,660	0.070375	13,336	0.074887	532,850	0.091937
3B	Keely B Federal	2,540,262	0.135425	252,169	0.169562	29,783	0.167242	805,800	0.139031
5	Keely C Federal	5,338,616	0.284608	313,863	0.211046	35,296	0.198200	1,540,235	0.265748
		18,757,765	1.000000	1,487,180	1.000000	178,083	1.000000	5,795,838	1.000000
		B		D		F		H	

*Includes Grayburg Paddock production - now inactive.

TRACT	PARTICIPANT	A/B x .50	C/D x .125	E/F x .125	G/H x .25
2	Burch AA Federal	0.080018	0.007209	0.006213	0.033386
3A	Burch BB Federal	0.082764	0.018327	0.019170	0.039288
4	Burch C Federal	0.066970	0.042346	0.043779	0.050452
6	Dexter Federal	0.004147	0.000745	0.000797	0.002695
1	Keely A Federal	0.056085	0.008797	0.009361	0.022984
3B	Keely B Federal	0.067712	0.021195	0.020905	0.034758
5	Keely C Federal	0.142304	0.026381	0.024775	0.064437
		0.500000	0.125000	0.125000	0.250000
					1.000000

EXHIBIT

" D "

Attached to and made a part of THAT CERTAIN UNIT OPERATING AGREEMENT DATED
IDENTIFIED AS THE BURCH-KEELY UNIT

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

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.

30

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 prime rate in effect at Prime rate in effect at Nations Bank on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. 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

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.

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 NationsBank's prime rate 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 judgements 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 \$ 3,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 300.00

- (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 each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

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

(a) Development

_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 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 \$ 250,000.00 :

A. 5% % of first \$100,000 or total cost if less, plus

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

C. 2% % 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. 5% % of total costs through \$100,000; plus

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

C. 2% % of total costs in excess of \$1,000,000.

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 inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF THAT CERTAIN UNIT OPERATING AGREEMENT DATED , 1993 IDENTIFIED AS THE BURCH-KEELY UNIT

INSURANCE

Operation shall, at the joint expense of the parties hereto at all times while operations are conducted hereunder, provide with responsible insurance companies, insurance as follows:

- a. Workmen's Compensation Insurance in accordance with the laws of the state in which the operating area is located, and Employer's Liability Insurance with limits of not less than \$100,000.00;
- b. Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000.00 as to any one person and \$300,000.00 as to any one accident; and Property Damage Liability Insurance with limits of not less than \$100,000.00 as to any one accident;
- c. Automobile Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000.00 as to any one person and \$500,000.00 as to any one accident; also, Automobile Public Liability Insurance with respect to Property Damage with limits of not less than \$100,000.00 as to any one accident; and
- d. Umbrella Liability with respect to excess over minimum scheduled liability policies of \$1,000,000.00.

Operator shall not provide, for the joint account of the parties hereto, insurance against the hazards of fire, windstorm, explosion, blowout, cratering, reservoir damage, pollution damage, or insurance other than that specified above.

It is understood that Operator does not warrant the financial responsibility of its insurance carrier, and except for willful negligence, Operator shall not be liable to Non-Operators for any loss resulting from insufficiency of the insurance carried, or of the insurer with whom carried. Operator shall not be liable to Non-Operators for any loss accruing by reason of the Operator's inability to obtain or maintain the above insurance, but Operator shall notify Non-Operators in writing, if it is unable to obtain or maintain such insurance.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN UNIT OPERATING AGREEMENT DATED , 1993 IDENTIFIED AS THE BURCH-KEELY UNIT

Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a) (Equal Employment Opportunity);

1-12.803-10 (certification of non-segregated facilities);

60-250 (employment opportunity for veterans);

60-741 (employment opportunities for handicapped individuals);

1-1.710 (subcontracting with small business concerns);

1-1.805 (subcontracting with labor surplus area concerns);

1-1.1310 (subcontracting with minority business enterprises); and

1-1.2303-2 (environmental protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.