

UNIT OPERATING AGREEMENT  
CROSS ROADS (DEVONIAN) UNIT  
LEA COUNTY, NEW MEXICO

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12417 & 12418 Exhibit No. 4  
Submitted by:  
Saga Petroleum, L.L.C.  
Hearing Date: September 7, 2000

UNIT OPERATING AGREEMENT  
CROSS ROADS SILURO-DEVONIAN UNIT  
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

Section .....	Page
---------------	------

ARTICLE 1  
CONFIRMATION OF UNIT AGREEMENT

1.1	Confirmation of Unit Agreement .....	1
-----	--------------------------------------	---

ARTICLE 2  
EXHIBITS

2.1	Exhibits .....	1
2.1.1	Exhibits A and B.....	1
2.1.2	Exhibit C.....	1
2.1.3	Exhibit D.....	1
2.1.4	Exhibit E.....	1
2.2	Revision of Exhibits.....	1

ARTICLE 3  
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1	Overall Supervision .....	1
3.2	Particular Powers and Duties.....	1
3.2.1	Method of Operation .....	2
3.2.2	Drilling of Wells.....	2
3.2.3	Well Workovers and Change of Status .....	2
3.2.4	Expenditures.....	2
3.2.5	Disposition of Surplus Facilities.....	2
3.2.6	Appearance Before a Court or Regulatory Body.....	2
3.2.7	Audits.....	2
3.2.8	Inventories .....	2
3.2.9	Technical Services.....	2
3.2.10	Appointment of Committees .....	2
3.2.11	Removal of Unit Operator.....	2
3.2.12	Enlargement of Unit Area.....	2
3.2.13	Readjustment of Investments.....	2
3.2.14	Termination of Unit Agreement .....	2

ARTICLE 4  
MANNER OF EXERCISING SUPERVISION

4.1	Designation of Representatives.....	2
4.2	Meetings .....	2
4.3	Voting Procedure .....	3

4.3.1	Voting Interest .....	3
4.3.2	Vote Required .....	3
4.3.3	Vote at Meeting by Nonattending Working Interest Owner .....	3
4.3.4	Poll Votes .....	3

## ARTICLE 5 INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

5.1	Reservation of Rights .....	3
5.2	Specific Rights .....	3
5.2.1	Access to Unit Area .....	3
5.2.2	Reports .....	3

## ARTICLE 6 UNIT OPERATOR

6.1	Initial Unit Operator .....	3
6.2	Resignation or Removal .....	4
6.3	Selection of Successor .....	4

## ARTICLE 7 POWERS AND DUTIES OF UNIT OPERATOR

7.1	Exclusive Right to Operate Unit .....	4
7.2	Workmanlike Conduct .....	4
7.3	Liens and Encumbrances .....	4
7.4	Employees .....	4
7.5	Records .....	4
7.6	Reports to Working Interest Owners .....	4
7.7	Reports to Governmental Authorities .....	4
7.8	Engineering and Geological Information .....	4
7.9	Expenditures .....	4
7.10	Settlements .....	4
7.11	Mathematical Errors .....	5

## ARTICLE 8 TAXES

8.1	Ad Valorem Taxes .....	5
8.2	Other Taxes .....	5

## ARTICLE 9 INSURANCE

9.1	Insurance .....	5
9.1.1	Insurance .....	5

## ARTICLE 10 ADJUSTMENT OF INVESTMENTS

10.1	Personal Property Taken Over .....	5
------	------------------------------------	---

10.1.1	Wells and Casing .....	5
10.1.2	Well and Lease Equipment.....	5
10.1.3	Records.....	5
10.2	Inventory and Evaluation of Personal Property .....	5
10.3	Investment Adjustment .....	5
10.4	General Facilities .....	6
10.5	Ownership of Personal Property and Facilities .....	6

## ARTICLE 11 DEVELOPMENT AND OPERATING COSTS

11.1	Basis of Charge to Working Interest Owners .....	6
11.2	Budgets.....	6
11.3	Advance Billing .....	6
11.4	Commingling of Funds .....	6
11.5	Lien of Unit Operator.....	6
11.6	Wells Drilled by Unit Operator .....	6
11.7	Burden of Excess Royalty and Other Interests .....	7

## ARTICLE 12 OPERATION OF NON-UNITIZED FORMATIONS

12.1	Right to Operate in Non-Unitized Formations .....	7
------	---	---

## ARTICLE 13 TITLES

13.1	Warranty and Indemnity.....	7
13.2	Failure Because of Unit Operations .....	7

## ARTICLE 14 LIABILITY, CLAIMS AND SUITS

14.1	Individual Liability .....	7
14.2	Settlements .....	7

## ARTICLE 15 INTERNAL REVENUE PROVISION

15.1	Internal Revenue Provision .....	8
------	----------------------------------	---

## ARTICLE 16 NOTICES

16.1	Notices .....	8
------	---------------	---

ARTICLE 17  
WITHDRAWAL OF WORKING INTEREST OWNER

17.1	Withdrawal .....	8
------	------------------	---

ARTICLE 18  
ABANDONMENT OF WELLS

18.1	Rights of Former Owners .....	9
18.2	Plugging .....	9

ARTICLE 19  
EFFECTIVE DATE AND TERM

19.1	Effective Date .....	9
19.2	Term .....	9

ARTICLE 20  
TERMINATION OF UNIT AGREEMENT

20.1	Termination .....	9
20.1.1	Oil and Gas Rights .....	9
20.1.2	Right to Operate .....	9
20.1.3	Salvaging Wells .....	9
20.1.4	Cost of Salvaging .....	9

ARTICLE 21  
COUNTERPART EXECUTION

21.1	Execution by Separate Counterparts or Ratifications .....	10
------	---	----

ARTICLE 22  
SUCCESSORS AND ASSIGNS

22.1	Successors and Assigns .....	10
------	------------------------------	----

Exhibit A (Map of Unit Tracts)  
Exhibit B (Schedule of Tract Participation)  
Exhibit C (Schedule of Unit Participation)  
Exhibit D (Accounting Procedure)  
Exhibit E (Insurance Provisions)

UNIT OPERATING AGREEMENT  
CROSS ROADS (DEVONIAN) UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1<sup>st</sup>. day of June, 1999, by and between the parties who execute or ratify this Agreement;

WITNESSETH: That,

WHEREAS, the parties hereto as Working Interest Owners have executed as of the date hereof, that certain Unit Agreement For the Development and Operation of the CROSS ROADS SILURO-DEVONIAN UNIT, Lea 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 pertaining to the development and operation of the Unit Area 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 incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2  
EXHIBITS

- 2.1 Exhibits. The following exhibits are incorporated herein by reference:
- 2.1.1 Exhibits A and B of the Unit Agreement.
  - 2.1.2 Exhibit C, attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner.
  - 2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area. In the event of conflict between this Agreement and Exhibit D, this Agreement shall prevail.
  - 2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area.
- 2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised according to such revision to be effective as of the effective date of revised Exhibits A and B.

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 the development and operation of the Unit Area 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.

3.2 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to, the following:

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

3.2.2 Drilling of Wells. The drilling of any well within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Workovers and Change of Status. The workover, recompletion, repair, abandonment, or change of status of any well in the Unit Area or use of any such well for injection or other purposes.

3.2.4 Expenditures. Making of any single expenditure in excess of Twenty Five Thousand and No/100 Dollars (\$25,000.00); provided that approval by Working Interest Owners of the drilling, 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. For all expenditures estimated to be in excess of Five Thousand and No/100 (\$5,000.00) Dollars, the Unit Operator will furnish copies of its AFE (Authorized Field Expenditure) to all Working Interest Owners for information purposes only.

3.2.5 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus material or equipment, the current net price of new equipment similar thereto being Twenty Five Thousand and No/100 (\$25,000.00) Dollars or more.

3.2.6 Appearance Before a Court or Regulatory Body. The designation of a representative to appear before any court or regulatory body in all matters pertaining to Unit operations; provided, however, such designation by Working Interest Owners shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf; and provided further, that in the absence of such designation Unit Operator shall appear as such representative.

3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:

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

(b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, unless such audit is conducted at the specific instance and request of Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including the Working Interest Owner designated as Unit Operator; and

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

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

3.2.9 Technical Services. Any direct charges to the joint account for the services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.2.10 Appointment of Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit operations.

3.2.11 Subject to Section 6.2, the removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The readjustment of investments as required.

3.2.14 The termination of the Unit Agreement.

#### ARTICLE 4 MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate representative 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 representative may be changed from time to time by written notice to Unit Operator.

4.2 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 one (1) or more Working Interest Owners. Except for emergency meetings which may be called on two (2) days' notice, 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 on such amended items or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

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

4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its then percentage in Unit participation, as shown in Exhibit C, and such revisions thereof as may hereafter be made in accordance with the terms of this Agreement.

4.3.2 Vote Required. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest owners shall act upon and determine all matters coming before them including but not limited to:

(a) an expenditure of more than Twenty Five Thousand and No/100 Dollars (\$25,000.00); or

(b) drilling of any wells and method of reconditioning for injection and/or producing wells

by the affirmative vote of a majority of the voting interest; provided, that should any one Working Interest Owner own more than forty percent (40%) voting interest, its vote must be supported by the vote of two (2) or more Working Interest Owners having a combined voting interest of at least fifteen percent (15%).

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. 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, provided 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.

4.3.4 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 Section 4.2, within seven (7) days after such proposal is served on Working Interest Owners. 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

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect the operation hereunder and all wells and 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 Owner who requests the information.

## ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator. Saga Petroleum Corporation is hereby designated as Unit Operator.



6.2 Resignation or Removal. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of six (6) months after the resignation or discharge, 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 a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, the successor Unit Operator may be selected by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

## ARTICLE 7 POWERS AND DUTIES OF UNIT OPERATOR

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

7.2 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 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.

7.3 Liens and Encumbrances. Unit Operator shall keep the lands 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.

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner monthly, injection and production reports for each well in the Unit, as well as periodic reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all necessary reports to governmental authorities.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Five Thousand and No/100 Dollars (\$25,000.00) without prior approval of Working Interest Owners; provided, however, that nothing in this Section (nor in Section 3.2.4) shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property.

7.10 Settlements. Unit Operator may settle any single damage claim not involving an expenditure in excess of Ten Thousand and No/100 Dollars (\$10,000.00), provided such payment is a complete settlement of such claim. All claims in excess of Ten Thousand and No/100 Dollars (\$10,000.00) must be approved by the Working Interest Owners.

7.11 Mathematical Errors. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement.

## ARTICLE 8 TAKES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; provided, that, 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 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 in respect of the production or handling of its share of Unitized Substances.

## ARTICLE 9 INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operation subject to this Agreement:

9.1.1 Insurance as set forth in Exhibit E.

## ARTICLE 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation together with the casing therein;

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

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall (at Unit expense) inventory and evaluate (i) all controllable material in accordance with provisions of Exhibit D and (ii) all personal property, except casing, so taken over under Section 10.1.2 above, and Working Interest owners shall appoint a committee for such purpose. Such inventory and evaluation shall, with the exception of sucker rods, be limited to items considered controllable, as recommended in the Material Classification Manual published by the Petroleum Accountants Society of Oklahoma in 1960. In this connection, Working Interest Owners agree to furnish such committee a list of their underground equipment prior to the effective date of this Agreement. The inventory as taken by the committee shall be as of the effective date of the Unit Agreement.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of such inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property, except casing, so 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 so taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit participation, as shown on Exhibit C. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any

other item of Unit expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above. Pricing of inventory will be in accordance with Article III of Exhibit D hereof.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for operations hereunder shall be by negotiation by and between 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 in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement in an amount equal to its Unit participation, shown on Exhibit C.

## ARTICLE 11 DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective Unit participation, shown on Exhibit C. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year, and on or before the first day of each October thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings that the estimated costs and expenses for each month of a quarterly period shall be one-third (1/3) of the estimate for the quarterly period. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportion of such costs and expenses by submitting to Working Interest owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly. Where such estimates include materials to be acquired, Working Interest Owners may have the option of furnishing such material in kind, subject to acceptance of such material by Unit Operator.

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

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon such Working Interest Owner's (i) leasehold and other mineral interests in each tract, (ii) its interest in all jointly-owned materials, equipment and other property, and (iii) its interest in all Unitized Substances, as security for payment of the costs and expenses chargeable to it, together with interest thereon at the rate of fifteen percent (15%) per annum. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such costs and expenses, with or without foreclosure of such lien. In addition, upon default by any Working Interest owner in the payment of costs and expenses chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers all proceeds of such Working Interest owner's share of Unitized Substances up to the amount owing by such Working Interest Owner plus interest, as aforesaid, until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default.

11.6 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be drilled on a competitive basis at the usual rates prevailing in the area. Unit Operator may employ its own tools and

equipment in the drilling of wells, but in such event, the charge therefor shall not exceed the prevailing rate in the area, and such work shall be performed by Unit Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors doing work of a similar nature.

11.7 Burden of Excess Royalty and Other Interests. If any interest contributed by a Working Interest Owner is burdened with a Royalty in excess of one-eighth (1/8), such excess burden shall be borne solely by the Working Interest Owner contributing such interest.

## ARTICLE 12 OPERATION OF NON-UNITIZED FORMATIONS

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

## ARTICLE 13 TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest set forth opposite its name in Exhibit B of the Unit Agreement and hereby indemnifies and agrees to hold the other Working Interest Owners harmless from any loss and liability for damages due to failure (in whole or in part) of its title to any such interest, except failure of title arising out of operations hereunder. Each failure of title shall 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 development and operating expenses, 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 by reason of Unit operations, including nonproduction from such tract, shall not operate to reduce or otherwise affect the percentage of Unit participation of the Working Interest Owner whose title has so failed.

## 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 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.

14.2 Settlements. In the event claim is made against a Working Interest Owner, or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this Agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Unit Operator shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unit Area.

ARTICLE 15  
INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each party hereto hereby irrevocably elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Unit Operator is hereby irrevocably authorized and directed to execute on behalf of each party hereto such additional or further evidence of said election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service and regulations issued under said Subchapter K, including all of the returns, statements and data required, and Unit Operator shall furnish each party hereto with a copy thereof. Should said regulations require each party to execute such further evidence, each party hereto irrevocably agrees to execute or join in the execution thereof. Each party hereto irrevocably agrees not to give any notices or take any action inconsistent with the elections hereby made and each hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16  
NOTICES

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

ARTICLE 17  
WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner desires to withdraw from the Unit it shall so notify the other Working Interest Owners, each of whom shall have the right and option for a period of thirty (30) days from receipt of such notice, to elect whether to participate in the acquisition of the entire present interest of the party desiring to withdraw. Failure of a notified owner to respond in writing to such notice shall constitute that owner's election not to participate in acquiring the said interest of the party seeking to withdraw, and if none of the notified parties elect to acquire, the proposed withdrawal shall not be accomplished. If within the thirty-day (30) option period one or more Working Interest owners elect in writing to participate in acquiring the particular interest (said parties being hereinafter called "acquiring owners") the withdrawing owner shall promptly transfer, assign and convey to the acquiring owners without warranty of title, either express or implied, all of the present right, title and interest of the withdrawing party in and to oil, gas and mineral leases or other operating rights in the Unit Area, insofar as said leases or rights pertain to the Unitized Formation, together with the withdrawing owner's interest in all wells, pipelines, casing, injection equipment, facilities and other personal property located upon or used in connection with the development and operation of the Unit Area. The interest so transferred, assigned and conveyed shall vest in the acquiring owners in the proportion which their respective Unit participations theretofore existing bear to their total Unit participation, and the Unit Operator shall recompute the percentages of participation to take into account said change of ownership and shall furnish all the Working Interest Owners with a corrected schedule of interests. Such a change of ownership shall not relieve the withdrawing owner from any obligation or liability incurred prior to the date of execution and delivery of the transfer, assignment and conveyance, but thereafter the withdrawing owner shall be relieved from all further obligations and liabilities under the Unit Agreement and this Agreement, and shall not be entitled to any benefits accruing hereunder and under the Unit Agreement. The only consideration to be paid by the acquiring owners for such a transfer, assignment and conveyance shall be the fair salvage value of the interest of the withdrawing owner in casing, equipment and other personal property as fixed by the acquiring owners in accordance with Exhibit D hereto.

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 of such fact to the former Working Interest Owner of the tract on which such well is located, together with the amount (as estimated and fixed by the Working Interest Owners) to be the net salvage value of the casing and equipment in and on said well; said former Working Interest Owner shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of its 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 ten (10) days after said former Working Interest Owner of the tract has so notified Unit Operator of its desire to take over such well, it shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount of the net salvage value above described. At the same time the former Working Interest Owner taking over the well shall agree, by letter addressed to Unit Operator, to effectively seal off and protect the Unitized Formation and (at such time as the well is ready for abandonment) to plug and abandon the well in a workmanlike manner in accordance with applicable laws and regulations.

18.2 Plugging. In the event the former Working Interest Owner of a tract does 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

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

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20 hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners.

ARTICLE 20  
TERMINATION OF UNIT AGREEMENT

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

20.1.1 Oil and Gas Rights. Possession of all oil and gas rights in and to the several separate tracts shall revert to the Working Interest Owners thereof.

20.1.2 Right to operate. Working Interest Owners of any such 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 of the casing and equipment in and on the well and by agreeing in writing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging Wells. With respect to all wells not taken over by Working Interest Owners, Unit Operator shall at the joint expense of Working Interest Owners salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and shall cause such wells to be properly plugged and abandoned.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Unit participation, as shown on Exhibit C.

ARTICLE 21  
COUNTERPART EXECUTION

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

ARTICLE 22  
SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

*COMPANY NAME*

WORKING INTEREST OWNER

BY: \_\_\_\_\_ DATE: \_\_\_\_\_

TITLE: \_\_\_\_\_

ATTEST:

BY \_\_\_\_\_ DATE: \_\_\_\_\_