

## UNIT AGREEMENT

Loveland Field Niobrara/Timpas/Codell Unit, Larimer and Weld Counties, Colorado

THIS AGREEMENT, entered into as of January 5, 1994, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof:

WITNESSETH:

WHEREAS, In the interest of the public welfare and to promote conservation and increase the ultimate recovery of oil, gas, and associated minerals from the Niobrara/Timpas/Codell formation in a part of the Loveland field, Larimer and Weld Counties, State of Colorado and to protect the rights of the owners of interests therein, it is deemed necessary and desirable to enter into this Agreement to unitize the Oil and Gas Rights in and to the Unitized Formation for primary production purposes, and for the drilling of 20 acre in fill locations, exception well locations, cased hole laterals, pressure maintenance operations and enhanced recovery operations without regard to lease boundaries;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, it is agreed as follows:

### ARTICLE 1

#### DEFINITIONS

As used in this Agreement, the terms herein contained shall have the following meaning:

1.1 UNIT AREA means the lands described by Tracts in Exhibit "A" and shown on Exhibit "B" as to which this Agreement becomes effective or to which it may be extended as herein provided.

1.2 UNITIZED FORMATION means that subsurface portion of the Unit Area commonly known or described as follows: The Niobrara, Timpas and Codell Formations at subsurface depths of four thousand four hundred and sixty feet (4,460') K.B. and four thousand eight hundred and ten feet (4,810') K.B. as shown on the Induction-Electrical Log of the Bunker #7 Well located in the N/2SE/4 of section 31, Township 5 North, Range 68 West, 6th P.M., Larimer County, Colorado.

1.3 UNITIZED SUBSTANCES means all oil, gas, gaseous substances, sulfur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

1.4 PARTY means a person or entity who is bound by this Agreement.

1.5 WORKING INTEREST means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing, and operating the Unitized Formation.

1.6 ROYALTY INTEREST means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

1.7 ROYALTY OWNER means a party hereto who owns a Royalty Interest.

1.8 **WORKING INTEREST OWNER** means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

1.9 **TRACT** means each parcel of land described as such and given a Tract number in Exhibit "A".

1.10 **UNIT OPERATING AGREEMENT** means the agreement entitled "Unit Operating Agreement, Loveland Field Niobrara/Timpas/Codell Unit, Larimer and Weld Counties, Colorado," of the same effective date as the effective date of this Agreement, and which is entered into by Working Interest Owners.

1.11 **UNIT OPERATOR** means the individual or entity designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

1.12 **TRACT PARTICIPATION** means the percentage shown on Exhibit A for allocating Unitized Substances to a Tract under this Agreement.

1.13 **UNIT PARTICIPATION** of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

1.14 **OUTSIDE SUBSTANCES** means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

1.15 **OIL AND GAS RIGHTS** means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

1.16 **UNIT OPERATIONS** means all operations conducted by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

1.17 **UNIT EQUIPMENT** means all personal property, lease and well equipment, including flow lines, taken over or otherwise acquired for the joint account for use in Unit Operations.

1.18 **UNIT EXPENSE** means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

1.19 **UNLESS** the context otherwise clearly indicated, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the feminine.

## ARTICLE 2

### EXHIBITS

2.1 EXHIBITS. Attached hereto are the following exhibits which are incorporated herein by reference:

2.1.1 EXHIBIT "A", which is a schedule that describes each Tract in the Unit Area and shows its Tract Participation.

2.1.2 EXHIBIT "B", which is a map that shows the boundary lines of the Unit Area and the Tracts therein.

2.2 REFERENCE TO EXHIBITS. When reference herein is made to an exhibit, the reference is to the Exhibit as originally attached or, if revised, to the latest revision.

2.3 EXHIBITS CONSIDERED CORRECT. An exhibit shall be considered to be correct until revised as herein provided.

2.4 CORRECTING ERRORS. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 A.M. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit.

2.5 FILING REVISED EXHIBITS. If an exhibit is revised pursuant to this Agreement, Unit Operator shall provide a copy to each Working Interest Owner and Royalty Owner, certify and file the revised exhibit for record in Larimer and Weld Counties and the State of Colorado Oil and Gas Conservation Commission.

## ARTICLE 3

### CREATION AND EFFECT OF UNIT

3.1 OIL AND GAS RIGHTS UNITIZED. Subject to the provisions of this Agreement, all Oil and Gas Rights of Royalty Owners in and to the lands described in Exhibit "A", and all Oil and Gas Rights of Working Interest Owners in and to said lands, are hereby unitized insofar as the respective Oil and Gas Rights pertain to the Unitized Formations, so that operations may be conducted as if the Unitized Formations had been included in a single lease executed by all Royalty Owners, as lessors, in favor of all Working Interest Owners, as lessees, and as if the lease had been subject to all of the provisions of this Agreement.

3.2 PERSONAL PROPERTY EXCEPTED. All lease and well equipment, materials, and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be Unit Equipment and may be removed by action of the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

3.3 AMENDMENT OF LEASES AND OTHER AGREEMENTS. The provisions of the various leases, agreements, division and transfer orders, or other instruments covering the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this Agreement.

3.4 CONTINUATION OF LEASES AND TERM ROYALTIES. Operations, including drilling operations, conducted with respect to the Unitized Formation or any part of the Unit Area, or production from any part of the Unitized Formation, except for the purpose of determining payments to Royalty Owners, shall be considered as operations upon or production from each Tract, and such operations or production shall continue in effect each lease or term royalty interest as to all lands covered thereby just as if such operations had been conducted and a well had been drilled on and was producing from each Tract.

3.5 TITLES UNAFFECTED BY UNITIZATION. Nothing herein shall be construed to result in the transfer of title to the Oil and Gas Rights by any party hereto to any other party or to Unit Operator. The intention is to provide for the cooperative development and operation of the Tracts and for the sharing of Unitized Substances as herein provided.

3.6 INJECTION RIGHTS. Royalty Owners hereby grant unto Working Interest Owners the right to inject into the Unitized Formation any substances of whatsoever nature and in whatever amounts Working Interest Owners deem expedient for Unit Operations, including the right to drill and maintain injection wells on the Unit Area and to use producing or abandoned oil or gas wells for such purposes.

3.7 DEVELOPMENT OBLIGATION. Nothing herein shall relieve Working Interest Owners from the obligation to develop reasonably as a whole the lands and leases committed hereto.

#### ARTICLE 4

##### PLAN OF OPERATIONS

4.1 UNIT OPERATOR. Working Interest Owners are, as of the effective date of this Agreement, entering into the Unit Operating Agreement, designating Pease Enterprises, Inc., a wholly owned subsidiary of Willard Pease Oil & Gas Company, as Unit Operator. Unit Operator shall have the exclusive right to conduct Unit Operations. The operations shall conform to the provisions of this Agreement and the Unit Operating Agreement. If there is any conflict between such Agreements, this Agreement shall govern.

4.2 OPERATING METHODS. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, Working Interest Owners shall, with diligence and in accordance with accepted engineering and production practices, engage in the methods of operation of the Unit Area which from time to time will in their judgment be conducive to that end within practicable economic limits, including water flooding operations and such other pressure maintenance, repressuring and secondary recovery operations as may be deemed by them to be necessary or proper to achieve that end.

4.3 CHANGE OF OPERATING METHODS. Nothing herein shall prevent Working Interest Owners from discontinuing or changing in whole or in part any method of operation which, in their opinion, is no longer in accord with accepted engineering or production practices. Other methods of operation may be conducted or changes may be made by Working Interest Owners from time to time if determined by them to be feasible, necessary, or desirable to increase the ultimate recovery of Unitized Substances.

4.4 DELEGATION. The Working Interest Owners may delegate to the Unit Operator any of the rights and powers herein or otherwise granted to them.

## ARTICLE 5

### TRACT PARTICIPATION

5.1 TRACT PARTICIPATION. The Tract Participation of each Tract is shown in Exhibit "A".

5.2 RELATIVE TRACT PARTICIPATIONS. If the Unit Area is enlarged or reduced, the revised Tract Participations of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another, subject to terms and conditions hereinafter stated.

## ARTICLE 6

### ALLOCATION OF UNITIZED SUBSTANCES

6.1 ALLOCATION TO TRACTS. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participations. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from the well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

6.2 DISTRIBUTION WITHIN TRACTS. The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal effect. If any Oil and Gas Rights in a Tract hereafter become divided and owned in severalty as to different parts of the Tract, the owners of the divided interests, in the absence of an Agreement or judicial decree providing for a different division, shall share in the Unitized Substances allocated to the Tract, or in the proceeds thereof, in proportion to the surface acreage of their respective parts of the Tract.

6.3 TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right to construct, maintain, and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained, and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

6.4 FAILURE TO TAKE IN KIND. If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others, store, inject or otherwise dispose of such share; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

6.5 RESPONSIBILITY FOR ROYALTY SETTLEMENTS. Any party receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for the payment thereof to the persons entitled thereto, and hereby indemnifies all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

6.6 ROYALTY ON OUTSIDE SUBSTANCES. If any Outside Substance is injected into the Unitized Formation, the first like substance contained in Unitized Substances subsequently produced and sold, or used for other than Unit Operations, shall be deemed to be the Outside Substance so injected until the total volume thereof equals the total volume of the Outside Substance so injected. No payments shall be due or payable to Royalty Owners on Outside Substances.

## ARTICLE 7

### PRODUCTION AS OF THE EFFECTIVE DATE

7.1 OIL IN LEASE TANKS. Unit Operator shall gauge all leases and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipe line connections, as of 7:00 A.M. on the effective date hereof. All such oil shall remain the property of the parties entitled thereto the same as if the unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts.

## ARTICLE 8

### USE OR LOSS OF UNITIZED SUBSTANCES

8.1 USE OF UNITIZED SUBSTANCES. Working Interest Owners may use as much of the Unitized Substances as they deem necessary for Unit Operations including, but not limited to, the injection thereof into the Unitized Formation.

8.2 ROYALTY PAYMENTS. No royalty, overriding royalty, production, or other payments shall be payable upon, or with respect to, Unitized Substances used or consumed in Unit Operations, or which otherwise may be lost or consumed in the production, handling, treating, transportation, or storing of Unitized Substances.

## ARTICLE 9

### TRACTS TO BE INCLUDED IN UNIT

9.1 QUALIFICATION OF TRACTS. On and after the effective date thereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit A that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as the Unit Area as a result of the following:

9.1.1 Written consent and joinder to the proposed plan of unitization has been obtained from eighty percent (80%) of those parties who own unit production or proceeds that will be credited to the landowner's royalty interests and overriding royalty interest which are free of costs.

9.1.2 Written consent and joinder to the proposed plan of unitization and proposed operating agreement has been obtained from eighty per cent (80%) of those parties who will be required to pay the costs of Unit Operations.

9.1.3 Approval and order or supplemental order authorizing the commencement of Unit Operations on the said tracts by the State of Colorado Oil and Gas Conservation Commission pursuant to the Commission's Rules and Regulations.

9.2 REVISION OF EXHIBITS. If any of the Tracts described in Exhibit "A" fail to be included in the Unit Area, Unit Operator shall recompute, using the original basis of computation, the Tract Participation of each of the included Tracts, and shall be effective as of the effective date hereof.

## ARTICLE 10

### TITLES

10.1 REMOVAL OF TRACT FROM UNIT AREA. If the Unit Area ceases to have sufficient Working Interest Owners or Royalty Owners committed to this Agreement to meet the conditions of Article 9 because of a determined failure of title of any party hereto, then the Working Interest Owners will seek a amendatory order, if necessary, from the State of Colorado Oil and Gas Conservation Commission to determine a revised Unit Area; however, the Unit Area will not be revised if, within ninety (90) days of the date of final determination of the failure of title, the required percentages under Article Subsections 9.1.1 and 9.1.2 are obtained.

10.2 REVISION OF EXHIBITS. If a Tract is removed from the Unit Area upon order of the State of Colorado Oil and Gas Conservation Commission, due to failure of title, Unit Operator, subject to Section 5.2, shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

10.3 WORKING INTEREST TITLES. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement.

10.4 ROYALTY OWNER TITLES. If title to a Royalty Interest fails, but the Tract to which it relates is not removed from the Unit Area, the party whose title failed shall not be entitled to share hereunder with respect to such interest.

10.5 PRODUCTION WHERE TITLE IS IN DISPUTE. If the title or right of a Party to receive in kind all or any portion of the Unitized Substances allocated to a tract, or any share of the proceeds from the sale thereof, is in dispute, the Party concerned shall forthwith give notice thereof to Unit Operator. If Unit Operator is so notified or if Unit Operator is directed to do so by the Working Interest Owners in the event that it is otherwise informed of the dispute, Unit Operator shall withhold and sell the portion of Unitized substances the title or right to which is in dispute, and hold in trust the proceeds from the sale thereof until: (a) the Party concerned furnishes security in a form and manner satisfactory to the Working Interest Owners for the proper accounting thereof to the rightful owner or owners if the title or right of the Party shall fail in whole or in part, whereupon the proceeds shall be paid to the Party; or (b) the title or right thereto is established by a final judgment of a Court or otherwise to the satisfaction of the Working Interest Owners, whereupon such proceeds shall be paid to the person rightfully entitled. If Unit Operator does not comply with this clause because it is not notified of a dispute by a Party concerned, that Party hereby agrees to indemnify and save harmless Unit Operator from any loss or damage suffered because of anything done or omitted to be done by Unit Operator because it was not notified.

**10.6 PAYMENT OF TAXES TO PROTECT TITLE.** The owners of the surface rights to land within the Unit Area and the owners of the improvements located on the lands not unitized for Unit Operations, shall individually be responsible for the rendition and assessment for ad valorem tax purposes of all such property, and for the payment of such taxes, except as otherwise provided in any contract or agreement between such owners and a Working Interest Owner. If any ad valorem taxes are not paid by such owner responsible therefor, when due, Unit Operator may, with approval of Working Interest Owners, at any time prior to tax sale, or expiration of period of redemption after tax sale, pay the same, redeem such property, and discharge such tax liens as may arise through non-payment. Any such payment shall be treated as an item of Unit Expense. Unit Operator shall, if possible, withhold from any proceeds derived from the sale of Unitized Substances otherwise due to any delinquent taxpayer or taxpayers an amount sufficient to defray the costs of such payment or redemption, such withholding shall be without prejudice to any other remedy, either at law or at equity, which may be available for exercise by the Unit Operator or by the Working Interest Owner.

## **ARTICLE 11**

### **SURFACE RIGHTS**

**11.1 SUBMISSION OF LIST TO UNIT OPERATOR.** As soon as reasonably possible after executing this Agreement, each Party shall submit to Unit Operator a list of all easements, rights-of-way, surface leases, rights of entry and other surface rights which it holds in connection with its operations in the proposed Unit Area, together with particulars thereof including rentals payable, if any.

**11.2 SURFACE RIGHTS REQUIRED FOR UNIT OPERATIONS.** Unit Operator shall, as soon as practicable after the receipt of each of the aforesaid lists, advise in writing the Party submitting the list which, if any, of its listed surface rights will be required for Unit Operations. Subject to the other provisions of this Article, each Party shall continue to hold the surface rights so required and pay the applicable rentals and bill Unit Operator for the amount of rentals applicable to periods subsequent to the Effective Date. Unit Operator shall reimburse each Party for rentals so paid and the amounts thereof shall be for the Joint Account. Notwithstanding the foregoing, each Party holding surface rights required for Unit Operation may, at any time at its election, assign such surface rights to Unit Operator.

**11.3 SURFACE RIGHTS JOINTLY USED.** Where there is a well or wells on a Tract in addition to a Unit Well, and surface rights are being used for production jointly from one or more of such other wells and the Unit Well, the rentals applicable to the surface rights shall be divided equally between the wells with respect to which the surface rights are being jointly used, and Unit Operator shall only be billed for the portion of such rentals which is applicable to the production of Unitized Substances from the Unit Well. For the purpose of this clause, a well producing from more than one formation shall be considered as two (2) wells.

**11.4 SURFACE RIGHTS NO LONGER REQUIRED.** Unit Operator may notify a Party that its surface rights or any one of them are no longer required for Unit Operations, but any such notice shall be given at least sixty (60) days prior to the date on which notice of surrender must be given to the surface owner or the accrual of a rental obligation, whichever is sooner. Unit Operator shall clean up the surface to the satisfaction of any governmental body having jurisdiction and to the reasonable satisfaction of the owner and occupier thereof. After giving such notice Unit Operator shall be relieved of its responsibility and liability with respect to the surface rights except any obligations already accrued, and shall be denied all benefit with respect to the surface rights, and shall thereafter be held harmless by the Party holding them from responsibility and liability as to the surface rights, which shall not thereafter be subject to this Agreement.



**11.5 ACQUISITION OF ADDITIONAL SURFACE RIGHTS.** Unit Operator may acquire such additional surface rights as it deems necessary or desirable for Unit Operations and all cost and expenses incurred in such acquisition shall be for the Joint Account.

**11.6 GRANT OF EASEMENTS.** The parties hereto, to the extent of their rights and interest, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations; provided that, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or camp site.

**11.7 USE OF WATER.** Working Interest Owners shall have free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner.

**11.8 SURFACE DAMAGES.** Working Interest Owners shall pay the owner a reasonable amount for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations. Upon the abandonment of any well in the Unit Area, Unit Operator or the Working Interest Owner abandoning the well shall clean up the surface at the well site to the satisfaction of any governmental body having jurisdiction and to the reasonable satisfaction of the owner and occupier thereof.

## **ARTICLE 12**

### **ENLARGEMENTS OF UNIT AREA**

**12.1 ENLARGEMENTS OF UNIT AREA.** The Unit Area may be enlarged or included in a new Unit Area in order to include acreage reasonably proved to be productive, upon such terms as may be determined by Working Interest Owners, including but not limited to, the following:

**12.1.1** The acreage shall qualify under any expansion or new Unit regulations of the State of Colorado Oil and Gas Conservation Commission.

**12.1.2** The participation to be allocated to the acreage shall be reasonable, fair, and based on all available information.

**12.1.3** There shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

**12.2 DETERMINATION OF TRACT PARTICIPATION.** Unit Operator, subject to Section 5.2, shall determine the Tract Participation of each Tract within the enlarged or new Unit Area and shall revise Exhibits A and B accordingly.

**12.3 EFFECTIVE DATE.** The effective date of any new Unit Area or enlargement of the Unit Area shall be 7:00 A.M. on the conditions for enlargement as specified by Working Interest Owners, approval by the appropriate governmental authority, if required, and the filing for record of revised Exhibits "A" and "B" in Larimer and Weld Counties.

## ARTICLE 13

### CHANGE OF TITLE

13.1 COVENANT RUNNING WITH THE LAND. This Agreement shall extend to, be binding upon, and inure to the benefit of, the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases, and interest covered hereby.

13.2 NOTICE OF TRANSFER. Any conveyance of all or any part of any interest owned by any party hereto with respect to any Tract shall be made expressly subject to this Agreement. No change of title shall be binding on the Unit Operator, or upon any party hereto other than the party so transferring, until the first day of the calendar month next succeeding the date of receipt by Unit Operator of a photocopy of a certified copy of the recorded instrument evidencing to the reasonable satisfaction of the Unit Operator such change in ownership.

## ARTICLE 14

### RELATIONSHIP OF PARTIES

14.1 NO PARTNERSHIP. The duties, obligations, and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation, or liability with regard to anyone or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

14.2 NO SHARING OF MARKET. This Agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

14.3 ROYALTY OWNERS FREE OF COSTS. This Agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise so obligated.

14.4 INFORMATION TO ROYALTY OWNERS. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

## ARTICLE 15

### LAWS AND REGULATIONS

15.1 GENERAL LAWS AND REGULATIONS. This Agreement shall be subject to the conservation laws of the State of Colorado, to the valid rules, regulations and orders of the Oil & Gas Conservation Commission of Colorado; and to all other applicable federal, state, and municipal laws, rules, regulations and orders.

15.2 COUNTY TAXES. In accordance with Colorado Revised Statute 39-10-106, the Unit Operator shall collect from the owners of the fractional interests any tax levied against the entire unit. The Unit Operator may deduct and withhold from royalty payments, or any other payments made to any fractional interest owner, either in kind or in money, the estimated amount of the tax to be paid by such fractional interest owner. Any difference between the estimated tax so withheld and the actual tax payable by any owner of a fractional interest may be accounted for by adjustments in royalty or other payments made to such owner subsequent to the time the actual tax is determined.

15.3 NONDISCRIMINATION. All applicable provisions of Executive Order No. 11246 of 41 C.F.R., Chapter 60, as amended, and the rules, regulations, and relevant orders of the Equal Employment Opportunity Commission shall be complied with at all times.

## ARTICLE 16

### FORCE MAJEURE

16.1 FORCE MAJEURE. All obligations imposed by this Agreement on each party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by federal, state, or municipal laws; by any rule, regulation, or order of a governmental agency; by inability to secure materials; or by any other cause or causes beyond reasonable control of the party. No party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any one or more of the causes set forth in this Article.

## ARTICLE 17

### EFFECTIVE DATE

17.1 EFFECTIVE DATE. This Agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto, and, unless sooner terminated as provided in Section 17.2, this Agreement shall become effective at the time set forth in the order approving unit operations by the State of Colorado Oil and Gas Conservation Commission.

17.2 IPSO FACTO TERMINATION. If this unit is not made effective on or before June 20, 1994, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Participation of at least eighty percent (80%) have become parties to this Agreement and have decided to extend the termination date for a period not to exceed six (6) months. If the termination date is so extended and the requirements of Section 17.1 are not accomplished on or before the extended termination date, this Agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this section, Unit Participation shall be as shown on the original Exhibit "C" attached to the Unit Operating Agreement.

## ARTICLE 18

### TERM

18.1 TERM. The term of this Agreement shall be for the time that Unitized Substances are produced in paying quantities and as long thereafter as Unit Operations are conducted without a cessation of more than one hundred twenty (120) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

18.2 TERMINATION BY WORKING INTEREST OWNERS. This Agreement may be terminated by Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) whenever such Working Interest Owners determine that Unit Operations are no longer profitable or feasible.

18.3 EFFECT OF TERMINATION. Upon termination of this Agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, Unit Operations shall cease, and thereafter the parties shall be governed by the provisions of the leases and other instruments affecting the separate Tracts. Notice of unit termination shall be given within thirty (30) days.

18.4 SALVAGING EQUIPMENT UPON TERMINATION. If not otherwise granted by the leases or other instruments affecting each Tract unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after the date of termination of this Agreement within which to salvage, remove or otherwise dispose of the Unit Equipment.

## ARTICLE 19

### EXECUTION

19.1 ORIGINAL, COUNTERPART, OR OTHER INSTRUMENTS. A person may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

19.2 JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or Royalty Owner shall commit all interest that may be owned or controlled by such party.

## ARTICLE 20

### GENERAL

20.1 AMENDMENTS AFFECTING WORKING INTEREST OWNERS. Amendments hereto relating wholly to Working Interest Owners may be made if signed by all Working Interest Owners and, if necessary, the approval of the State of Colorado Oil and Gas Conservation Commission is obtained.

20.2 ACTION BY WORKING INTEREST OWNERS. Any action or approval required by Working Interest Owners hereunder shall be in accordance with the provisions of the Unit Operating Agreement.

20.3 LIEN OF UNIT OPERATOR. Unit Operator shall have a lien upon the interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

## **UNIT OPERATING AGREEMENT**

### **LOVELAND FIELD NIOBRARA /TIMPAS/CODELL UNIT LARIMER AND WELD COUNTIES, COLORADO**

THIS AGREEMENT, entered into as of \_\_\_\_\_, 1993, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

**WITNESSETH:**

WHEREAS, The parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Loveland Field Niobrara/Timpas/Codell Unit Agreement, Larimer and Weld Counties, Colorado", herein referred to as "Unit Agreement", which, among other things, provides for separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

#### **ARTICLE 1**

##### **CONFIRMATION OF UNIT AGREEMENT**

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. 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, which is a schedule showing the Working Interest of each Working Interest Owner in the Unit.

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

2.1.4 EXHIBIT "E", attached hereto, which contains insurance provisions applicable to Unit Operations.

2.2 REVISION OF EXHIBITS. Whenever Exhibits "A" and "B" are revised, Exhibit "C" shall be revised accordingly, if necessary, and be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

#### **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 AUTHORITIES AND DUTIES.** The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

**3.2.1 METHOD OF OPERATION.** The method of operation, including any type of waterflood operations, pressure maintenance, secondary recovery or other enhanced 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 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 twenty five thousand dollars (\$25,000.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

**3.2.5 DISPOSITION OF UNIT EQUIPMENT.** The selling or otherwise disposing of any major item or surplus Unit Equipment, if the current list price of new equipment similar thereto is twenty five thousand dollars (\$25,000.00) 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; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

**3.2.7 TECHNICAL SERVICES.** The authorizing of charges to the joint account for services by Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit "D".

**3.2.8 ASSIGNMENTS TO COMMITTEES.** The appointment of committees to study any problems in connection with Unit Operations.

**3.2.9 ENLARGEMENTS OF UNIT AREA.**

**3.2.10 ADJUSTMENT AND READJUSTMENT OF INVESTMENTS.**

**3.2.11 TERMINATION OF THE UNIT AGREEMENT.**

## **ARTICLE 4**

### **MANNER OF EXERCISING SUPERVISION**

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

**4.2 MEETINGS.** All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners. Unless the representatives of all Working Interest Owners waive their right to notice, no meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

**4.3. MINUTES.** Unit Operator shall keep minutes of the proceedings of each meeting of the Working Interest Owners and a copy thereof shall be forwarded to each Working Interest Owner. The minutes shall include the names of the representatives present and indicate any formal action taken at the meeting.

**4.4 VOTING PROCEDURE.** Working Interest Owners or their designated representative shall decide all matters coming before them as follows:

**4.4.1 VOTING INTEREST.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

**4.4.2 VOTE REQUIRED - GENERALLY.** Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty-five percent (65%) or more voting interest. A determination of a matter by the voting of Working Interest Owners in accordance with this Agreement shall be binding on all Working Interest Owners.

**4.4.3 VOTE AT MEETING BY NON ATTENDING WORKING INTEREST OWNER.** Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

**4.4.4 POLL VOTES.** Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within ten (10) working days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

**4.4.5 FAILURE TO VOTE.** A Working Interest Owner who does not vote on any matter shall be deemed to have voted affirmatively, but in recording the vote in the minutes, the working Interest Owner shall be shown as having been present and abstained, been absent, or failed to vote pursuant to a mail vote, as the case may be.

**4.4.6 APPROVED ACTION BINDING UPON ALL PARTIES.** Any action, determination or decision which has been approved by the Working Interest Owners pursuant to Article 4 shall be binding upon each and every Working Interest Owner, even though any such owner has not voted, or has voted to the contrary.

## **ARTICLE 5**

### **INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS**

**5.1 RESERVATION OF RIGHTS.** Working Interest Owners severally reserve to themselves all their rights and privileges, 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 Owner who requests the information.

## ARTICLE 6

### UNIT OPERATOR

6.1 INITIAL UNIT OPERATOR. Pease Oil And Gas Company is hereby designated as Unit Operator.

#### 6.2.1 RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR:

1. RESIGNATION OR REMOVAL OF OPERATOR. Operator may resign at any time by giving written to the Working Interest Owners. If in the event the Operator no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any actions by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt, or is placed in receivership, by the affirmative vote of two (2) or more Working Interest Owners having a combined voting interest of ninety percent (90.0%) or more of the Unit Participation Working Interest as shown on Exhibit "C", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

6.2.2 SELECTION OF SUCCESSOR OPERATOR. Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected.

## 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 reasonable and workmanlike manner as would a prudent operator under the same or similar circumstances and in accordance with all applicable laws. 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.



7.3 **LIABILITY OF UNIT OPERATOR.** Unit Operator shall not be liable to the other Working Interest Owners for any loss or damage suffered by them resulting or arising from Unit Operations except when and to the extent that such loss or damage results from the gross negligence or willful or wanton misconduct of Unit Operator. Each Party in the proportion of its Unit Participation indemnifies and agrees to hold harmless the Unit Operator against any claim of, or liability to, any respect of Unit Operations, except when and to the extent that such claim or liability results from the gross negligence or willful or wanton misconduct of Unit Operator. For the purposes of this clause, an act or omission of Unit Operator shall not be deemed gross negligence or willful or wanton misconduct if such act or omission is done or omitted pursuant to the instructions of, or with the concurrence of, the Working Interest Owners.

7.4 **LIENS AND ENCUMBRANCES.** Unit Operator shall endeavor to keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator granted hereunder and those being contested in good faith.

7.5 **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 Operators.

7.6 **RECORDS.** Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.7 **REPORTS TO WORKING INTEREST OWNERS.** Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

7.8 **REPORTS TO GOVERNMENTAL AUTHORITIES.** Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.9 **ENGINEERING AND GEOLOGICAL INFORMATION.** Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.10 **EXPENDITURES.** Unit Operator is authorized to make single expenditures not in excess of twenty-five thousand dollars (\$25,000.00) 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. Copies of any Authorization from Expenditure in excess of twenty-five thousand dollars (\$25,000.00) will be provided to each Working Interest Owner.

7.11 **WELLS DRILLED BY UNIT OPERATOR.** All wells drilled by Unit Operator shall be at reasonable rates considering the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.12 **DISPOSITION OF UNIT EQUIPMENT.** Unit Operator shall have the right to sell or otherwise dispose of any major or minor item or surplus Unit Equipment, if the current list price of new equipment similar thereto is less than twenty-five thousand dollars (\$25,000.00).

7.13 **BORDER AGREEMENTS.** Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to land adjacent to the Unit Area for the purpose of coordinating operations.

## ARTICLE 8

### TAXES

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 taxes upon materials, equipment, and other personal property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties in the same proportion as the assessed value of their respective portions of the Unitized Substances bears to the whole. Unit Operator shall collect or cause to be collected from each Working Interest Owner all such property taxes; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment of 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. Notwithstanding any provisions contained herein to the contrary, Unit Operator shall have the option, but not the obligation to pay or cause to be paid all production, severance, ad valorem, real estate, gathering, and other taxes imposed upon or with respect to the production or handling of Unitized Substances. In the event Unit Operator elects to pay or cause to be paid a Working Interest Owners proportionate share of all production, severance, ad valorem, real estate, gathering and other taxes imposed upon or with respect to the production or handling of Unitized Substances, Unit Operator shall withhold, or cause to be withheld from any such Working Interest Owners proceeds derived from the sale of Unitized Substances an amount sufficient to pay any and all taxes associated with the production of such Working Interest Owners proportionate share of Unitized Substances. Notwithstanding the foregoing paragraph to the contrary, Working Interest Owners shall make and file for all necessary production, severance, ad valorem, real estate, gathering and other taxes imposed upon or with respect to the production or handling its share of oil and/or gas production from the Unit Area prior to the Effective Date. Working Interest Owners shall settle all assessments arising therefrom.

8.4 FAILURE TO PAY TAXES. In the event any Working Owner should fail to pay any taxes as provided for in Articles 8.1 and 8.2 herein, Unit Operator shall pay, or cause to be paid such taxes, and such amount shall be added to the Working Interest Owners share of Unit Expense who failed to pay such taxes when due. Such amount will be then subject to Article 11.1 and to the remedies provided to Unit Operator under Article 11.3 in the event such Working Interest Owner fails to pay the Unit Operator for taxes paid on such Working Interest Owners behalf.

## ARTICLE 9

### INSURANCE

9.1 INSURANCE. Unit Operator, with respect to Unit Operations shall do the following:

9.1.1 Comply with the Workmen's Compensation Law of the State of Colorado.

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

9.1.3 Carry other 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 the exclusive use and possession of the following:

**10.1.1 WELLS AND CASING.** All wells completed in the Unitized Formation, together with the casing therein.

**10.1.2 WELLS AND LEASE EQUIPMENT.** The casing and tubing in each such 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. Unit Operator shall have up to one hundred Twenty (120) days subsequent to the date this Unit Agreement becomes effective as defined in Article 19. Upon Unit Operator determining that any equipment is surplus, such equipment shall be returned to the Operator for the Working Interest Owners who delivered same to Unit Operator and such equipment shall not be considered to have been taken over under this Section.

**10.1.3 RECORDS.** A copy of all production and well records that pertain to such wells; and any other pertinent information and records requested by the Unit Operator.

**10.2 INVENTORY AND EVALUATION.** As of the effective date, or as soon thereafter as possible, Unit Operator shall at Unit Expense, inventory and evaluate all well, lease and other operating equipment then located in or on each Tract. Such inventory and evaluation shall be limited to those items defined as controllable equipment pursuant to Section 10.2.1. Unit Operator shall submit such inventory and evaluation to the Working Interest Owners for approval. Witness of the inventory and evaluation by Working Interest Owners shall not be an item of Unit Expense.

**10.2.1 CONTROLLABLE EQUIPMENT.** Prior to the initial equipment inventory, each Operator or Working Interest Owner shall submit a complete statement of the controllable equipment delivered by such Operator or Working Interest Owner to Unit Operator. In the event Unit Operator does not receive a complete statement of the controllable equipment from an Operator or Working Interest Owner delivered by such Operator or Working Interest Owner prior to the initial equipment inventory, credit shall be given for surface equipment only. Only those items of equipment and material listed as controllable in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America shall be considered in the initial inventory except that sucker rods shall be controllable items and surface casing, production casing and line pipe for the purpose hereof shall be considered non-controllable items. The classifications and evaluations will be in accordance with the provisions of said manual.

**10.2.2 BASIS OF EVALUATION.** Accounting for the purposes of adjustment of investment as herein provided shall be in accordance with the terms and provisions of Exhibit "D" for all wells, lease and other operating equipment taken over by the Unit.

**10.2.3 BOLTED TANKS & SIMILAR EQUIPMENT.** Bolted tanks and similar equipment involving erection costs will be prices f.o.b. Loveland Field, Colorado at erected condition value.

**10.2.4 PROMPT PAYMENT DISCOUNTS.** Any discounts normally offered by a supplier for payment received within a specified short period of time shall not be applied in pricing of the initial inventory.

10.2.5 NON-USABLE & JUNK EQUIPMENT. Non-usable and junk equipment and material will not be taken over by the Unit Operator, but such items will remain the property of the Working Interest Owner(s) owning same prior to the effective date of this Unit. Such Working Interest Owner(s) shall be responsible for the disposal of such non-usable and junk equipment and other materials within thirty (30) days of written request by Unit Operator. In the event such Working Interest Owner(s) does/do not dispose of such equipment within the aforesaid time period, Unit Operator shall dispose of such equipment and invoice the Working Interest (s) owning same for the cost and disposal. to dispose of as they please.

10.2.6 LOANED EQUIPMENT PROVISION. Unit Operator shall have temporary use of such items of equipment not needed in the conduct of operations under this Agreement, but necessary to continue operating practices employed prior to the effective date hereof until such time that such practices have been converted to the conduct of operations contemplated under this Agreement. All lease and well equipment not needed for conduct of operations under this Agreement and which will not be evaluated as provided herein including that equipment retained by Unit Operator shall be returned within six (6) months from the effective date to the party or parties who owned the same immediately prior to the effective date of this Agreement.

10.3 INVESTMENT ADJUSTMENT. The values of well, lease and other operating equipment associated with the Tracts are not in proportion to the Tract Participation of such Tracts and as such, the values have not entered into the determination of the Tract Participation. A separate exchange of interests in well, lease and other operating equipment shall be had among Working Interest Owners. Upon return by the Unit Operator to the Working Owners of all well, lease and other operating equipment loaned to the Unit pursuant to Section 10.2.6 and approval by Working Interest Owners of the inventory and evaluation, such Working Interest Owner shall be credited with the value of its interest in all wells and equipment taken over under Section 10.1, and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment over Section 10.1 by such Working Interest Owner's Unit Participation. 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 an item of Unit Expense chargeable against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.3.1 WELL INVESTMENT. There shall not be intangible well cost adjustment separate and apart from the adjustment for well, lease and other operating equipment.

10.4 GENERAL FACILITIES. The Unit Operator may enter into agreements with any person or entity for the acquisition, operation of use (or joint use) of any real or personal property other than Unit Equipment or Unit Area lands, or as to Unit Equipment and Unit Area lands; and all costs and expenses recovered or incurred pursuant to said Agreements shall be for the Joint Account.

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 Expense. Each Working Interest Owner's share shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "D".

11.2 CAPITAL BUDGETS. Before or as soon as practical after Effective Date, Unit Operator shall prepare a capital budget of estimated Unit Expense for the remainder of the calendar year, and thereafter shall prepare capital budgets and mail same to Working Interest Owners on or before the 1st day of October of each succeeding year subsequent to the Effective Date. Capital budgets shall be estimated 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 capital budget and adjustment capital budget shall be furnished promptly to each working Interest Owner.

11.3 ADVANCED BILLINGS. Unit Operator shall have the right 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 thirty (30) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimates. 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. Should a Working Interest Owner fail to pay its respective share of estimated Unit Expense as provided hereinabove, the advanced billing shall be treated as an item of Unpaid Unit Expense pursuant to Section 11.6.

11.4 COMMINGLING OF FUNDS. No funds received by Unit Operator under this Agreement need be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 LIEN OF UNIT OPERATOR. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the maximum contract rate permitted by the applicable usury laws of Colorado. For such purposes any nonconsenting Working Interest Owner subject to the Unit shall be deemed to have contracted with the Unit Operator for his proportionate part of the cost of developing and operating the Unit Area. In addition, upon default by any Working Interest Owner in the payment of its share of Unit expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default and is authorized to pay over to said Operator all monies attributable to the interest off any such defaulting Owner until the indebtedness is paid.

11.6 UNPAID UNIT EXPENSE. If any Working Interest Owner fails to pay its share of Unit Expense within thirty (30) days after rendition of a statement therefor by Unit Operator, the unpaid balance shall be paid to Unit Operator by the non-defaulting Working Interest Owners as if it were Unit Expense in the proportion that the Unit Participation of each such non-defaulting Working Interest Owner bears to the total Unit Participation by all such non-defaulting Working Interest Owners. Such unpaid amounts shall bear interest at the maximum Contract rate permitted by the applicable usury laws of the State of Colorado. Working Interest Owners so paying the same shall be reimbursed therefor, together with interest thereon, when the amount so carried and the interest thereon are collected from the Working Interest Owners primarily chargeable therewith. The amount shall be due and payable out of the proceeds from the defaulting Working Interest Owners share of Unit sales. During the time that any Working Interest Owner fails to pay its share of Unit Expense, the Unit Operator shall be entitled to collect and receive from the purchaser the proceeds from such Working Interest Owner's share of the Unit sales. All credits to any such defaulting Working Interest Owner on account of the sale or disposal of Unit Equipment, or otherwise, shall also be applied against the unpaid share of Unit Expense charged against such Working Interest Owner.

Notwithstanding any provision of this Section 11.6 to the contrary, in the event a defaulting Working Interest Owner fails or is unable to pay its share of the Unit Expense within thirty (30) days after receipt of a statement from the Unit Operator notifying the defaulting Working Interest Owner that they are in default, (such statement shall not be mailed by Unit Operator until at least thirty (30) days have lapsed subsequent to the original statement) Unit Operator shall have the option, as an additional remedy, of charging the defaulting Working Interest Owner and administrative charge equal to three hundred percent (300%) of the unpaid balance in addition to the interest equal to the maximum Contract Rate permitted by the applicable usury laws of the State of Colorado as provided hereinabove. The three hundred percent (300%) administrative charge is to be paid to the Unit Operator for the additional overhead costs incurred by the Unit Operator in the management of unpaid accounts and is not an interest penalty.

Notwithstanding the foregoing, the Unit Operator shall have the option, but not obligation, to elect to carry or otherwise finance any defaulting working interest owner(s) in lieu of having all non-defaulting Working Interest Owners participate in the carrying or otherwise financing any defaulting Working Interest Owner(s).

Unit Operator upon such election shall be entitled to recovery of the money advanced in behalf of the defaulting Working Interest Owner, plus any penalty as provided herein.

**11.7 PLUGGING LIABILITIES.** Subject to the approval of the Working Interest Owners having a combined voting interest of a lease fifty percent (50%) of the Unit Participation Working Interest, Unit Operator may charge to the account of Working Interest Owners each month an amount of money to apply against the estimated costs of plugging and abandoning wells and restoration of premises at the conclusion of Unit Operations. Said amount of money shall be determined by the Unit Operator, based upon the estimated life of the field and Unit Operators best estimates as to the ultimate cost of plugging and abandoning the wells and termination of Unit Operations. Any and all monies so collected shall be placed in an interest bearing account in an acceptable financial institution for the use and benefit of Working Interest Owners.

**11.8 CARVED-OUT INTERESTS.** Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest shall be subject to this Agreement.

## 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 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 reasonable precaution 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 Formations, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

## ARTICLE 13

### TITLES

**13.1 WARRANTY AND INDEMNITY.** Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit "C", and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations.

**13.2 FAILURE OF TITLE.** Should any oil and gas interest or lease, or interest therein be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "C", this Agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests.

**13.3 INDIVIDUAL LOSS.** Any Working Interest Owner whose title fails shall alone bear the loss, and hereby expressly agrees to indemnify all other Working Interest Owners against any claim for damages arising from such failure which may be asserted against them. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder, except failure that may be caused by or results from the gross negligence or willful wrong of Unit Operator.

**13.4 WAIVER OF RIGHTS TO PARTITION.** Each Working Interest hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the Unitized Formations of the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

**13.5 NO RETROACTIVE ADJUSTMENT.** Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unitized Substances or the proceeds therefrom, as a result of title failure.

**13.5.1 UNRECOVERED COSTS.** If the proportionate interest of the other Working Interest Owner's hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the Working Interest Owner whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well.

**13.5.2 REFUNDING COSTS RECOVERED.** Should any person not a party to this Agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the costs of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded.

**13.5.3 LIABILITY TO THIRD PARTY.** Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production.

**13.5.4 NO CHARGE TO JOINT ACCOUNT.** No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

**13.6 TITLE FAILURE BECAUSE OF UNIT OPERATIONS.** The failure of title to any Working Interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

**13.7 LIEN ON OR ASSIGNMENT OF PRODUCTION.** If any interest of a Working Interest Owner in a Tract of Unitized Substances or the proceeds or value thereof is subject to a lien, assignment of production or other encumbrance, the owner or holder of such lien, assignment or encumbrance, by consenting to this Agreement in writing, agrees that such lien, assignment or encumbrance shall, from the Effective Date continue in effect, but shall apply only to such interest as the same is amended, modified and affected by this Agreement and the Unit Agreement, and shall be subject to such agreements as to the Working Interest Owner and such interest.

## ARTICLE 14

### LIABILITY, CLAIMS, AND SUITS

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

14.2 **SETTLEMENTS.** In addition to the powers granted Unit Operator by Exhibit "D", and anything contained in Exhibit "D" contrary to this paragraph notwithstanding, Unit Operator shall have the authority to prosecute legal action or settle any damage claim or suit at the expense of the Joint Account when authorized by a majority in interest. Selection of outside attorneys shall be at the discretion of Unit Operator and subject to approval by the Working Interest Owners. Claims arising out of operations on the Unit Area shall be handled by Unit Operator and its attorneys. It is understood that Unit Operator does not have a legal staff as contemplated in Exhibit "D". The settlement of claims of this kind shall be within the discretion of Unit Operator so long as the amount paid in full in settlement of any one claim does not exceed Ten Thousand Dollars (\$10,000.00), and if settled, the sum paid in settlement shall be charged as Unit Expense to, and shall be paid by all Working Interest Owners in proportion to their Unit Participation. All costs and expenses of handling, settling or otherwise discharging such claims or suits shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 **NOTICE OF LOSS.** Unit Operator shall report to Working Interest Owners as soon as practicable after each occurrence, damage or loss to Unit Equipment, and each accident, occurrence, claim, or suit involving third party bodily injury or property damage exceeding Fifteen Thousand Dollars (\$15,000.00) not covered by insurance carried for the benefit of Working Interest Owners.

14.4 **FORCE MAJEURE.** Any obligation imposed by this Agreement on each Person, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by Federal, State or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure material or by any other cause beyond the reasonable control of such Persons. No Person shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of suspension of Unit Operations due to any of the causes set forth in this section.

14.3 **SUITS.** If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.



## ARTICLE 15

### INTERNAL REVENUE PROVISION

15.1 INTERNAL REVENUE PROVISION. Each Working Interest Owner hereby elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and ruling now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

## 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.

16.2 NOTICE OF TRANSFER OF TITLE. A Working Interest Owner transferring, assigning or conveying all or any part of its interest in and to its Oil and Gas Rights shall notify Unit Operator of such transfer, assignment or conveyance within Fifteen (15) days of the effective date of such transfer, assignment or conveyance. No change of title shall be binding upon the Unit or Unit Operator until the first day of the calendar month next succeeding the date of the receipt by Unit Operator or evidence, satisfactory to Unit Operator, of such change of ownership. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligation of the predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the parties acquiring such interest all benefits attributable hereunder to such interest.

## ARTICLE 17

### SALE OR SURRENDER BY WORKING INTEREST OWNER

17.1 MAINTENANCE OF UNIFORM INTEREST. For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interest covered by this Agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

1. The entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this Agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this Agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

**17.2 SURRENDER.** A Working Interest Owner shall not surrender their interest in a Tract without the prior consent of the Working Interest Owners.

**17.3 WITHDRAWAL.** A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferee 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, less its share of the estimated cost of salvaging same and of the estimated cost 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 salvaged equipment 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 rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, the withdrawing owner shall be relieved from all further obligations and liabilities hereunder and 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.

**17.4 LIMITATIONS ON WITHDRAWAL.** Notwithstanding anything set forth in Section 17.3, Working Interest Owners may refuse to permit the withdrawal of any Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

## ARTICLE 18

### ABANDONMENT OF WELLS

**18.1 RIGHTS OF FORMER OWNERS.** If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of thirty (30) days, or eight (8) hours if a drilling rig is in place, after the receiving of such notice to notify Unit Operator in writing of their election to take over and own the well.

Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the fair net salvage value of the casing and equipment in and on the well. The Unit Operator shall seal off the Unitized Formation in the well before handing it over to the Working Interest Owner and thereupon Unit Operator shall be relieved of its responsibility and liability with respect to the well, except any obligations already accrued, and shall be denied all benefit with respect to the well and shall thereafter be held harmless, by the Working Interest Owner so electing, from responsibility and liability as to the well, which shall not thereafter be subject to this Agreement.

18.2 PLUGGING. If Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed to be abandoned, 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. Although this Agreement is binding upon a Working Interest Owner from the time the Working Interest Owner executes and delivers a counterpart thereof to the Unit Operator, this Agreement shall become effective on the date and at the time that the Unit Agreement becomes effective. As of the effective date, this Unit Operating Agreement shall supersede and replace all previous operating agreements between the parties hereto, insofar and only insofar as they pertain to the unitized formation and land.

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 abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

## ARTICLE 20

### FINANCING CARRIED WORKING INTEREST OWNERS

20.1 Any Working Interest Owner who does not execute this Unit Operating Agreement prior to the Effective Date and thereby elects to be carried or otherwise financed, and any Working Interest Owner who executes this Agreement but elects to go non-consent at anytime after the commencement of unit operations (hereinafter referred to as "Carried Working Interest Owner"), shall be so carried or otherwise financed by the Working Interest Owners who have executed this Unit Operating Agreement (hereinafter referred to as "Committed Working Interest Owners") and each such Carried Working Interest Owner effective upon the Effective Date of the Unit shall be deemed to have relinquished to the Committed Working Interest Owners, and the Committed Working Interest Owners shall own and be entitled to receive, in proportions as hereinafter set forth, all of each such Carried Working Interest Owner's share of the Oil and Gas Rights in the Unit and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market, or market value thereof, if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty, and other interest payable out of or measured by the production from the Unit accruing with respect to such interest until it reverts) shall equal the total of the following:

- a. 150% of each Carried Working Interest Owner's share of the cost and expense of any newly acquired surface equipment beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment, surface injection equipment and piping), plus 150% of each Carried Working Interest Owner's share of the cost of Unit Operations, plus interest on the unrecovered balance at two percent (2%) above the prime rate as published in the Wall Street Journal, and;

- b. 150% of each Carried Working Interest Owner's share of the costs and expenses of any staking, wellsite preparation, drilling, (production and/or injection wells), reworking, deepening, plugging back, testing, completing, converting existing wells to injections wells, and (150%) of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), plus interest on the unrecovered balance at two percent (2%) above the prime rate as published in the Wall Street Journal.

Each month, the Unit Operator shall be reimbursed by the Committed Working Interest Owners of the share of the Unit Expense chargeable to the Carried Working Interest Owner. Each Committed Working Interest Owner's share of the carried interest shall be treated as any other Unit Expense chargeable to such Committed Working Interest Owner and shall be in the ratio that such that such Committed Working Interest Owner's interest bears to the total interest of the Committed Working Interest Owners.

Recovery by the Committed Working Interest Owners of the money advanced on behalf of a Carried Working Interest Owner, plus penalty as aforesaid, shall be recoverable from such Carried Working Interest Owner's share of production. Notwithstanding the foregoing, Unit Operator shall have the option, but not the obligation, to elect to carry or otherwise finance any Carried Working Interest Owners(s) in lieu of having all Committed Working Interest Owners participate in the carrying or otherwise financing any Carried Working Interest Owner(s). Unit Operator upon such election shall be entitled to recovery of the money advanced on behalf of a Carried Working Interest Owner, plus any penalty as provided herein.

If, at the end of the twelve (12) month period immediately following the Effective Date, there is a monetary surplus in account of any Carried Working Interest Owner, Unit Operator, acting on behalf of all Committed Working Interest Owners, shall pay the surplus amount to such Carried Working Interest Owner. Thereafter, if at the end of any twelve (12) month period there is a monetary surplus in the account of any Carried Working Interest Owner, Unit Operator, acting on behalf of all Committed Working Interest Owners, shall pay the surplus amount to such Carried Working Interest Owner. There shall be no interest paid to any Carried Working Interest Owner on any such surplus disbursements.

## ARTICLE 21

### ABANDONMENT OF OPERATIONS

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

21.1.1 EFFECT OF TERMINATION. Further development will be in accordance with Article 18.3 of the Unit Agreement.

21.1.2 RIGHT TO OPERATE. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to joint account, the fair net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to properly plug each well at such time as it is abandoned.

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

21.1.4 COST OF SALVAGING. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Participations.

ARTICLE 22

FURTHER ASSURANCES

22.1. FURTHER ASSURANCES. Each Working Interest Owner shall from time to time and at all times do all such further acts and execute and deliver all such further documents as required in order to fully perform and carry out this Agreement.

ARTICLE 23

EXECUTION

23.1 ORIGINAL COUNTERPART, OR OTHER INSTRUMENT. A party may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 24

SUCCESSORS AND ASSIGNS

24.1 SUCCESSORS AND ASSIGNS. The provisions hereof shall be covenants running with the lands, leases, and interest covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

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

UNIT OPERATOR

Pease Oil And Gas Company

By: Robbie Greis  
Jan 11, 1994 Date

Attest: Laura Shaer

WORKING INTEREST OWNERS  
TO LOVELAND FIELD NIOBRARA /TIMPAS /CODELL UNIT

\_\_\_\_\_  
Bernice D. Blackhall Date

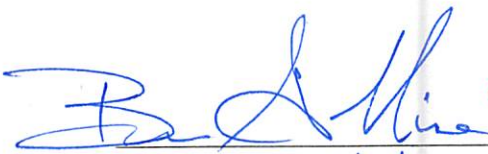
Evergreen Resources, Inc.

By: \_\_\_\_\_  
Date

Attest: \_\_\_\_\_

\_\_\_\_\_  
Walter A. Ohmart, Jr.      Date

\_\_\_\_\_  
Thomas A. Ohmart      Date



Brion Wise      2/1/94      Date



\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Pease Oil and Gas Company

By *Robin L. L...*

Attest:

*Lana Shaer*

STATE OF *Colorado* )

COUNTY OF *Denver* )

ss

Subscribed and sworn before me this *11th* day of *January*, 199<sup>*4*</sup>

MY COMMISSION EXPIRES 9-4-1994

My Commission Expires \_\_\_\_\_

*Gwendolyn A. Burns*  
Notary Public

Evergreen Resources, Inc.

By \_\_\_\_\_

Attest:

STATE OF \_\_\_\_\_ )

COUNTY OF \_\_\_\_\_ )

ss

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993

My Commission Expires \_\_\_\_\_

\_\_\_\_\_  
Notary Public

Bernice D. Blackhall

By \_\_\_\_\_

STATE OF \_\_\_\_\_ )

COUNTY OF \_\_\_\_\_ )

ss

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993

My Commission Expires \_\_\_\_\_

\_\_\_\_\_  
Notary Public

Walter A. Ohmart, Jr.

By \_\_\_\_\_

STATE OF \_\_\_\_\_ )

COUNTY OF \_\_\_\_\_ )

ss

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993

My Commission Expires \_\_\_\_\_

\_\_\_\_\_  
Notary Public

Thomas A. Ohmart

By \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) ss

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993

My Commission Expires \_\_\_\_\_  
Notary Public

Brion Wise

By *Brion Wise*  
2/1/94

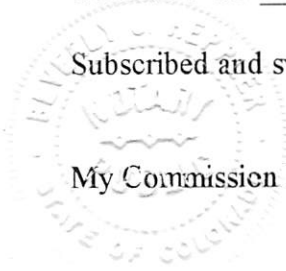


STATE OF Colorado )  
COUNTY OF Adams ) ss

Subscribed and sworn before me this 1st day of Feb, 1994

My Commission Expires 5/3/94

*Severin J. Heppner*  
Notary Public





BOOK 1215 PAGE 232

845651

No. 05873-3

FORM NO. 10-1-1916

OIL AND GAS LEASE

AGREEMENT, Made and entered into this 23rd day of July, 1963, by and between Oscar C. Swanson and Hazel L. Swanson, husband and wife, 2621 E. Garfield, Loveland, Colorado

and W. M. Peterson, 11705 Canyon Drive, Denver, Colorado

WITNESSETH, that the lessor for and in consideration of the sum of \$1000.00 Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided and of the agreements of lease herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, casinghead gas, and all other minerals, laying pipe, lines, building roads, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Larimer County, State of Colorado, to-wit: Twp. 5 North, Range 68 West of 6th, P.M., Section 32: N4SW1

including all minerals underlying lakes, streams, roads, easements and rights-of-way which traverse or adjoin said lands, which minerals are owned or claimed by lessor or rights to which minerals may hereafter be established in lessor; and also, in addition to the above-described land, all land adjoining the same and owned or claimed by lessor and containing

TO HAVE AND TO HOLD the lease (subject to the other provisions herein contained) for a term of five (5) years from this date (called "primary term") and as long thereafter as oil or gas or casinghead gas or either or any of them, is produced therefrom; or as much longer thereafter as the lessee in good faith shall conduct drilling operations thereon and should production result from such operations, this lease shall remain in full force and effect as long as oil or gas or casinghead gas, shall be produced therefrom. In consideration of the premises it is hereby mutually agreed as follows:

1. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lease may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or at the lessor's option, pay to the lessor for such one-eighth (1/8) royalty the market price for oil of like grade and gravity prevailing in the field where produced on the day such oil is run into the pipe line, or into storage tanks.
2. The lessee shall pay lessor, as royalty, one-eighth (1/8) of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not used or sold shall pay Fifty Dollars (\$50.00) per acre as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well. The lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense.
3. To pay lessor for gas produced from any oil well and used off the premises or in the manufacturing of gasoline or any other product a royalty of one-eighth (1/8) of the market value, at the mouth of the well, payable monthly at the prevailing market price.
4. If operations for the drilling of a well for oil or gas are not commenced on said land on or before one year from this date, this lease shall terminate as to both parties, unless the lessor shall on or before one year from this date, pay or tender to the lessor or for the lessor's credit in

Berthoud National Bank at Berthoud, Colorado

of the land, the sum of Eighty and no/100 Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well one year from said date. In like manner and upon payments or tenders the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of this lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessor's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check or draft of lease or any assigns thereof, mailed or delivered on or before the rental paying date. Lessee may at any time execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases. Notwithstanding the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors and administrators of such persons.

5. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, begins or resumes the payment of rentals in the manner and amount above herein provided; and in this event the preceding paragraphs hereof governing the payment of rental and the manner and effect thereof shall continue in force.

6. If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate herein, then the royalties and rentals herein provided for shall be paid the lessor only in the proportion which his interest bears to the whole and undivided fee.

7. Lessee shall have the right to use, free of cost, gas, oil, and water produced on said land for its operation thereon, except water from wells of lessor. When requested by lessor, lessee shall bury his pipe lines below plow depth. No well shall be drilled nearer than 200 feet to the house or barn or on said premises, without the written consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops on said land. Lessee shall have the right at any time to remove all improvements, machinery, and fixtures placed or erected by lessee on said premises, including the right to pull and remove casing.

8. If the lessee shall commence to drill a well within the term of this lease or any extension thereof, the lessee shall have the right to drill such well to completion with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with the like effect as if such well had been completed within the term of years herein first mentioned.

9. If the estate of either party hereto is assigned (and the privilege of assigning in whole or in part is expressly allowed), the covenants hereof shall extend to their heirs, executors, administrators, successors and assigns, but no change of ownership in the land or in the rentals or royalties shall be binding on the lessee until after notice to the lessor and it has been furnished with the written transfer or assignment or a certified copy thereof, and in case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

10. If the leased premises shall hereafter be owned in severalty, or in separate tracts, the premises, nevertheless, shall be developed and operated as one lease and all royalties accruing hereunder shall be treated as an entirety and shall be divided among and paid to such separate owners in the proportion that the acreage owned by each such separate owner bears to the entire leased acreage. There shall be no obligation on the part of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise or otherwise, or to furnish separate measuring or receiving tanks. It is hereby agreed that, in the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such part or parts shall fail or make default in the payment of the proportionate part of the rent due from him or them, on an acreage basis, such default shall not operate to defeat or affect this lease in so far as it covers a part or parts of said land upon which the said lessee or any assignee hereof shall make due payments of said rentals.

11. If at any time there be as many as six parties (or more) entitled to receive royalties under this lease, lessee may withhold payment thereof unless and until all parties designate in writing in a recordable instrument to be filed with the lessor, a Trustee to receive all royalty payments due hereunder and to execute division and transfer orders on behalf of said parties and their respective successors in title.

12. Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Lessee shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental authority by executing the same upon request of lessee.

13. In addition to and not in limitation of the rights granted in paragraph 12 hereof, lessee is hereby granted the right and option to consolidate, pool, or combine the lands covered by this lease, or any portion or portions thereof, or any stratum or strata thereunder, with other lands or like strata thereunder for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons, or any or all of said products, under the lessee's discretion and judgment it is advisable so to do for proper development, operation of the premises, or to conform to spacing or zoning rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessee may elect provided that all lands in any such unit shall be contiguous (either adjoining or cornering) but for the presence of such shape and dimensions shall not be deemed to be destroyed by reason of the existence of any excluded street, alley, road, railroad, canal, stream, right of way or other similar strip or parcel of land. Any unit formed under this paragraph for production of oil and casinghead gas shall not exceed thirty-three (33) acres in surface area, or production of dry or gas well shall not exceed six hundred and larger unit for condensate or district is permitted or prescribed by local authority. Any such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this lease, the size of any of the units mentioned herein may be increased to the size of the there existing governmental survey unit nearest in size to the unit acreage prescribed herein. The right and option herein granted to lessee may be exercised at any time or from time to time, whether before or after production is secured and whether or not a unit may heretofore have been created for some other product, by executing in writing an instrument identifying and describing the unit created, and by delivering a copy thereof to lessor or by recording a copy thereof in the county where the lands described in this lease, shall be deemed to be drilling done or production secured on the lands subject to this lease for all purposes except for the purpose of payment of royalty hereunder. If such event, and in lieu of royalties elsewhere herein specified, the lessor shall receive from production on any such unit only such portion of the royalty, at the rate stipulated herein, as the acreage in the unit (or his royalty interest therein) bears to the total acreage of the unit. Formation of any unit as herein provided shall in no manner affect the ownership or amount of any rental which may be payable under the terms of this lease.

14. In the interest of conservation, the protection of resources and recovery of the greatest ultimate yield of oil, gas and other minerals, lessee shall have the right to combine the leased premises with other premises in the same general area for the purpose of operating and maintaining repressuring and recycling facilities, and for such purpose may create such facilities, including input wells, upon the leased premises, and no royalties shall be payable hereunder upon any gas used for repressuring, and recycling operations benefiting the leased premises.

15. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge any taxes, mortgages, or other liens existing levied, or assessed on or against the above described lands and, in event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien; any royalty or rentals accruing hereunder.

16. All rental payments which may fall due under this lease may be made by one of the above named lessors, in the manner herein stated.

17. If within the primary term of this lease production on the leased premises shall cease from any cause, this lease shall not terminate provided rentals in the manner and amount hereinbefore provided, or on the next ensuing rental paying date; or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinbefore provided, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for drilling a well within sixty (60) days from such cessation, and this lease shall remain in force during production of such operations and, if production results therefrom, then as long as production continues.

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18. It is agreed that this lease shall not be forfeited or cancelled for failure to perform in whole or in part any of the implied covenants, conditions, or stipulations until it shall have first been finally judicially determined that such failure exists, and until such time thereafter to comply with any such covenants, conditions, or stipulations.

19. All express and implied covenants, conditions, or stipulations of this lease shall be subject to any federal and state laws, executive orders, rules, and regulations, and this lease shall not be terminated, in whole or in part, nor shall it be held liable in damages for failure to comply therewith if compliance is prevented by or through failure to obtain necessary and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

20. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessors.

21. With respect to and for the purpose of this lease, lease, and each of them if there be more than one, hereby release and waive the right of homestead.

WHEREOF witness our hands as of the day and year first above written.

*Oscar G. Swanson*  
Oscar G. Swanson  
*Hazel L. Swanson*  
Hazel L. Swanson

ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ } ss.  
County of \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_ to me known to be the person \_\_\_\_\_ described in and who executed the foregoing instrument and acknowledged that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed.

Given under my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

Commission Expires \_\_\_\_\_

Notary Public.

ACKNOWLEDGMENT—MAN AND WIFE

STATE OF \_\_\_\_\_ } ss.  
County of \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me personally appeared \_\_\_\_\_ to me known to be the person \_\_\_\_\_ described in and who executed the foregoing instrument and acknowledged that \_\_\_\_\_ executed the same as \_\_\_\_\_ free act and deed, including the release and waiver of the right of homestead; the said wife having been by me fully apprised of her right and the effect of signing and acknowledging the said instrument.

Given under my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

My Commission Expires \_\_\_\_\_

Notary Public.

No. 515550

OIL AND GAS LEASE  
FROM

TO

State of \_\_\_\_\_ } ss.  
Larimer County

This instrument was filed for record on the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, at \_\_\_\_\_ o'clock, \_\_\_\_\_ M., and duly recorded in Book \_\_\_\_\_, Page \_\_\_\_\_ of the records of this office.

By *[Signature]*  
County Clerk—Register of Deeds  
Deputy.

When recorded return to  
W.M. Beteman  
11785 Catwell Dr.  
Denver 15, Colo.

COLORADO ACKNOWLEDGMENT

STATE OF Colorado }  
County of Larimer

The foregoing instrument was acknowledged before me this 23 rd. day of July, 1963, by Oscar G. Swanson and Hazel L. Swanson, husband and wife

WITNESS my hand and official seal

My Commission Expires \_\_\_\_\_

Notary Public