

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 8132
ORDER NO. 9556

IN THE MATTER OF A HEARING CALLED ON
A MOTION OF THE COMMISSION TO
CONSIDER THE APPLICATION OF EAGLE
OPERATING, INC. FOR AN ORDER
APPROVING CERTAIN AMENDMENTS TO
THE UNIT OPERATING AGREEMENT FOR
THE MOHALL-MADISON UNIT, RENVILLE
AND BOTTINEAU COUNTIES, NORTH
DAKOTA; SO AS TO AUTHORIZE THE
RECOVERY OF A RISK PENALTY AS
PROVIDED BY N.D.C.C. SECTION 38-08-09.4
AND FOR SUCH FURTHER AND ADDITIONAL
RELIEF AS THE COMMISSION DEEMS
APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

- (1) This cause was scheduled for hearing at 9:00 a.m. on the 8th day of October, 2003.
- (2) Commission Order No. 9289, signed October 17, 2002, approved the creation of the Mohall-Madison Unit, located in Renville and Bottineau Counties, North Dakota.
- (3) Order No. 9324, signed October 28, 2002, determined that the Unit would become effective November 1, 2002.
- (4) North Dakota Century Code (NDCC) Section 38-08-09.4 was amended effective August 1, 2003, authorizing the inclusion of a risk penalty in Units approved by the Commission.
- (5) Eagle Operating, Inc., operator of the Mohall-Madison Unit, provided notice to all working interest owners of interest in the Unit of a working interest owner meeting to be held on September 26, 2003 to consider allowing the recovery of a risk penalty pursuant to the provisions of NDCC Section 38-08-09.4.
- (6) Working interest owners, representing 92.1% interest in Phase I and 91.7% interest in Phase II, voted in favor of amending the Unit Operating Agreement to include a risk penalty effective October 1, 2003.

- (7) There were no objections to this application.
- (8) This application should be granted in order to protect correlative rights.

IT IS THEREFORE ORDERED:

(1) Section 11.6 of the Mohall-Madison Unit Operating Agreement is hereby amended, effective October 1, 2003, to read as follows:

"Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner, plus a risk penalty equal to two hundred percent (200%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is derived from a lease; or other contract for development; or a risk penalty equal to fifty percent (50%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is not derived from a lease or other contract for development. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator."

(2) Interpretation and application of the risk penalty provisions of Section 11.6 of the Unit Operating Agreement must be consistent with the terms and conditions of NDCC Section 38-08-09.4 that allows for the recovery of a risk penalty from owners electing not to participate in a Unit expense.

Dated this 24th day of October, 2003.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

/s/ John Hoeven, Governor

/s/ Wayne Stenehjem, Attorney General

/s/ Roger Johnson, Agriculture Commissioner

SFN5729

STATE OF NORTH DAKOTA

AFFIDAVIT OF MAILING

COUNTY OF BURLEIGH

I, Donna Bauer, being duly sworn upon oath, depose and say: That on the 28th of October, 2003 enclosed in separate envelopes true and correct copies of the attached Order No. 9556 of the North Dakota Industrial Commission, and deposited the same with the United States Postal Service in Bismarck, North Dakota, with postage thereon fully paid, directed to the following persons by the Industrial Commission in Case No. 8132:

John Morrison
Fleck, Mather & Strutz Ltd.
P. O. Box 2798
Bismarck, ND 58502

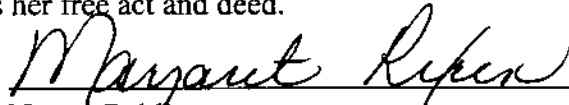
Lawrence Bender
Pearce & Durick
P. O. Box 400
Bismarck, ND 58502

Greg Steiner
Eagle Operating
P. O. Box 853
Kenmare, ND 58746



Donna Bauer
Oil & Gas Division

On this 28th day of October, 2003, before me personally appeared Donna Bauer to me known as the person described in and who executed the foregoing instrument and acknowledged that she executed the same as her free act and deed.



Notary Public
State of ND, County of Burleigh
My Commission expires 9-21-2005

EAGLE OPERATING, INC.

**AMENDMENT TO UNIT OPERATING AGREEMENT
MOHALL-MADISON UNIT
RENVILLE AND BOTTINEAU COUNTIES
NORTH DAKOTA**

October 8, 2003

Case No. 8132

MOHALL-MADISON UNIT TIME LINE

August 1, 2002	Eagle Operating, Inc. ("Eagle") filed application with North Dakota Industrial Commission for unitization of proposed Mohall-Madison Unit.
September 17, 2002	Commission had a hearing to consider application of Eagle for unitization of proposed Mohall-Madison Unit.
October 17, 2002	Commission enters Order No. 9289 in Case No. 7894 approving Eagle's application for proposed Mohall-Madison Unit subject to securing statutory ratifications.
October 28, 2002	Commission entered Order No. 9324 in Case No. 7895 determining that statutory ratifications had been secured by Eagle in approving Unit Agreement and Unit Operating Agreement for Mohall-Madison Unit effective November 1, 2002.
August 1, 2003	Amendments to Section 38-08-09.4 of the North Dakota Century Code become effective authorizing the inclusion of risk penalty in units approved by the Commission.
September 9, 2003	Eagle provides notice to all working interest owners of interest in Mohall-Madison Unit of working interest owner meeting to be held on September 26, 2003 (<i>see</i> Exhibit 2).
September 15, 2003	Eagle files application with Commission for approval of amendments to Unit Operating Agreement.
September 26, 2003	Working Interest Owner meeting held in Kenmare, North Dakota; amendment approved by Working Interest Owners (<i>see</i> Exhibits 3 and 4).
October 8, 2003	Commission hearing to consider application of Eagle Operating, Inc. for approval of amendments to Unit Operating Agreement for Mohall-Madison Unit.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA
DATE 10/8/03 CASE NO. 8132
Introduced By Eagle
Exhibit 1
Identified By Greg Steiner

EXHIBIT 1



EAGLE OPERATING INC.

TO: ALL WORKING INTEREST OWNERS, MOHALL-MADISON UNIT
FROM: EAGLE OPERATING, INC.
DATE: SEPTEMBER 9, 2003
RE: NOTICE OF WORKING INTEREST OWNERS MEETING

**NOTICE OF WORKING INTEREST OWNERS MEETING
MOHALL-MADISON UNIT
RENVILLE AND BOTTINEAU COUNTIES, NORTH DAKOTA**

PLEASE TAKE NOTICE, pursuant to the Unit Operating Agreement for the Mohall-Madison Unit, Eagle Operating, Inc. has called a meeting of all Working Interest Owners. The meeting will be held on September 26, 2003, at the offices of Eagle Operating, Inc., 11 West Division, Suite 201, Kenmare, North Dakota, 58746, at 9:00 A.M. Central Time.

An agenda of the matters to be considered at the above-referenced meeting is attached herewith.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA
DATE 10/8/03 CASE NO. 8132
Introduced By Eagle
Exhibit 2
Identified By Greg Steiner

Office: 701/385-4244 – Fax: 701/385-4246
11 West Division - Suite #201- PO Box 853- Kenmare, ND 58746

EXHIBIT 2



EAGLE OPERATING INC.

AGENDA
WORKING INTEREST MEETING
MOHALL-MADISON UNIT
RENVILLE AND BOTTINEAU COUNTIES, NORTH DAKOTA

- 9:00 A.M. Call to order by Robert Mau, President of Eagle Operating, Inc.
- 9:05 A.M. Brief history of Mohall Field development and unitization.
- 9:10 A.M. * Consideration of expenditures for Mohall-Madison Unit.
- 9:30 A.M. * Consideration of amendment to Unit Operating Agreement for Mohall-Madison Unit to allow recovery of risk penalty pursuant to provisions of Section 38-08-09.4 of the North Dakota Century Code as amended by the North Dakota Legislative Assembly effective August 1, 2003.
- 10:00 A.M. Other business.
- 10:15 A.M. Adjournment

Note that all times are approximate.

- * Items which require Working Interest Owner approval.

MINUTES
MOHALL-MADISON UNIT
WORKING INTEREST OWNERS MEETING
SEPTEMBER 26, 2003
KENMARE, NORTH DAKOTA

CALL TO ORDER:

The meeting of the Working Interest Owners of the Mohall-Madison Unit was called to order by Mr. Robert Mau, President of Eagle Operating, Inc., Unit Operator at 9:00 A.M. on September 26, 2003. Working Interest Owners in attendance were as follows:

<u>Working Interest Owners</u>	<u>Represented by</u>
Eagle Operating, Inc.	Robert Mau
Earl Schwartz Company	Robert Mau
Estate of Earl Schwartz	Kathy Schwartz Mau Kay Schwartz York
R.L. York Company	Ray York

BRIEF HISTORY OF MOHALL FIELD DEVELOPMENT AND UNITIZATION:

[REDACTED]

CONSIDERATION OF EXPENDITURES FOR MOHALL-MADISON UNIT:

[REDACTED]

CONSIDERATION OF AMENDMENT TO UNIT OPERATING AGREEMENT FOR MOHALL-MADISON UNIT TO ALLOW RECOVERY OF RISK PENALTY PURSUANT TO PROVISIONS OF SECTION 38-08-09.4 OF THE NORTH DAKOTA CENTURY CODE AS AMENDED BY THE NORTH DAKOTA LEGISLATIVE ASSEMBLY EFFECTIVE AUGUST 1, 2003:

Mr. Mau briefly outlined a proposal for an amendment to the Unit Operating Agreement for the Mohall-Madison Unit and Commission upon Mr. Lawrence Bender with the firm of Pearce &

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA
DATE 10/8/03 CASE NO. 8/132 Page 1 of 2

Introduced By Eagle

Exhibit 3

Identified By Greg Steiner

EXHIBIT 3

Durick, counsel for Eagle Operating, Inc., to explain the amendment. Mr. Bender explained that the 2003 Legislative Assembly enacted legislation to authorize the recovery of a risk penalty from working interest owners electing not to participate in unit expenses. Mr. Bender explained that the legislation which became effective August 1, 2003, provided for a penalty against non-consenting unleased mineral owners. Mr. Bender then presented a proposed amendment to the Unit Operating Agreement for the Mohall-Madison Unit.

After considerable discussion, it was moved by Ray York, seconded by Kathy Mau, that the Unit Operating Agreement for the Mohall-Madison Unit be amended to include a risk penalty as prepared by Mr. Bender.

The motion was approved with all working interest owners in attendance (representing 92.141962% interest in Phase I and 91.70642% interest in Phase II) voting in favor of the amendment.

OTHER BUSINESS:

[REDACTED]

ADJOURNMENT:

There being no further business for the Working Interest Owners to consider, it was moved by Kathy Mau and seconded by Robert Mau that the meeting be adjourned. The motion was approved and the meeting was adjourned.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner, plus a risk penalty equal to two hundred percent (200%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is derived from a lease; or other contract for development; or a risk penalty equal to fifty percent (50%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is not derived from a lease or other contract for development. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA
DATE 10/8/03 CASE NO. 8132
Introduced By Fagle
Exhibit # 4
Identified By Greg Steiner

EXHIBIT 4

EXHIBIT 5

UNIT OPERATING AGREEMENT

MOHALL-MADISON UNIT

EAGLE OPERATING, INC.

INDUSTRIAL COMMISSION

STATE OF NORTH DAKOTA

DATE 10/8/03 CASE NO. 8132

Introduced By Eagle

Exhibit 5

Identified By Greg Steiner

**UNIT OPERATING AGREEMENT
MOHALL-MADISON UNIT AREA
RENVILLE AND BOTTINEAU COUNTIES, NORTH DAKOTA**

THIS AGREEMENT, entered into as of the 1st day of July, 2002, 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 "Unit Agreement, Mohall-Madison Unit Area," herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for 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.

1.2 **Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, the following terms, when used herein, shall have the following meanings:

1.2.1 **Unit Production** means all Unitized Substances produced and saved from the Unitized Formation.

1.2.2 **Oil and Gas** means not only oil and gas as such in combination one with the other but means oil, gas, casinghead gas, casinghead gasoline, condensate, or other hydrocarbons or associated minerals, or any combination thereof.

1.2.3 **Lessee or Working Interest Owner** means an owner of a Working Interest, as defined in the Unit Agreement.

**ARTICLE 2
EXHIBITS**

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

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

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

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

2.1.4 Exhibit "F," attached hereto, which contains Insurance Provisions applicable to Unit Operations.

2.1.5 Exhibit "G," attached hereto, which contains Inventory and Pricing Procedures of material taken into Unit Operations.

2.1.6 Exhibit "H," attached hereto, which contains Equal Opportunity Provision applicable to Unit Operations.

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

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. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner, and not on behalf of the owners as an entirety.

3.2 **Specific Authorities and Duties.** The matters with respect to which the Working Interest Owners shall vote pursuant to Article 4.3, prior to any action by Unit Operator shall include, but not be limited to the following:

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

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

3.2.3 **Well Recompletion 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 Fifty Thousand Dollars (\$50,000.00). However, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 **Disposition of Unit Equipment.** The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is in excess of 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; and shall be made in accordance with Article 4, Paragraph 4.3.2; provided that, such designation shall not prevent any Working Interest Owner from appearing or from designating another representative in its own behalf, at its expense.

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

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

(b) Be made upon the approval of sixty percent (60%) or more of the Working Interest Owners with at least three (3) Working Interest Owners voting in the affirmative, other than the Unit Operator, at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator; and

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

3.2.8 **Inventories.** The taking of periodic inventories as provided by Exhibit "E."

3.2.9 **Technical Services.** The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the charges provided by Exhibit "E."

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

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

3.2.12 **Enlargement of Unit Area.** The enlargement of the Unit Area.

3.2.13 **Investment Adjustment.** The adjustment and readjustment of investments.

3.2.14 **Termination of Unit Agreement.** The termination of the Unit Agreement, as provided therein.

3.2.15 **Border Agreements.** The entering into of border agreements.

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 one or more Working Interest Owners having a total Unit Participation of not less than five percent (5%). No meeting shall be called on less than fourteen (14) days advance written notice. 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. The Unit Operator will prepare and furnish minutes of all meetings to the Working Interest Owners.

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

4.3.1 **Voting Interest.** Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 **Vote Required - Generally.** Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of at least sixty percent (60%) or more voting interest; provided that, should any one Working Interest Owner have more than sixty percent (60%) or more of the voting interest, its vote must be supported by the vote of one (1) or more Working Interest Owners. The negative vote of any one Working Interest Owner having more than forty percent (40%) of such voting interest shall not defeat a motion or measure unless such owner is joined by the negative vote of three or more other Working Interest Owners.

4.3.3 **Vote at Meeting by Non-attending Working Interest Owner.** Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 **Poll Votes.** Working Interest Owners may vote by letter or telegram on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested, as provided in Article 4.2, within fourteen (14) days after a written

proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall control. Failure to vote within the time prescribed by the Unit Operator, which shall be no less than thirty (30) days after receipt of such matter, shall be deemed to be a no vote with respect to the proposal. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

4.3.5 **Binding Effect of Vote.** All Working Interest Owners shall be bound for their proportionate share of all costs and expenses of Unit Operations approved by the Working Interest Owners by the vote required herein.

4.4. **Authority for Expenditures.** The Unit Operator shall prepare and submit to the Working Interest Owners for approval an Authority for Expenditures (hereinafter referred to as an "A.F.E.") for any single project in excess of Fifty Thousand Dollars (\$50,000.00). Notwithstanding that such project is contemplated by the then existing approved Plan of Operations, such project shall not be conducted unless such A.F.E. receives the approval of the Working Interest Owners as herein provided.

ARTICLE 5 INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 **Reservation of Rights.** Working Interest Owners retain all their rights, except as otherwise provided in this Agreement or 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 such information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

5.3 **Taking Unitized Substances in Kind.** The Unitized Substances allocated to each Tract shall be taken in kind by 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 at their sole cost and expense 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.

5.4 **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 for not less than the market price, or sell to others such share at the same price as the Unit Operator receives for its own production from the Unit; 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 (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the Party entitled thereto on an individual Tract basis in accordance with applicable laws and regulations.

5.5 **No Sharing of Market.** Nothing herein shall be construed to provide directly or indirectly for any cooperative refining, joint sale or marketing of Unit Production.

5.6 **Reversionary Interest.** When a Tract ownership changes due to the payout (or multiple) of a well within the unit, the balance remaining to recover will be calculated on an allocated Tract basis after the Effective Date of the unit. Payout will be deemed to occur the first day following the time that the payout balance becomes zero.

ARTICLE 6 UNIT OPERATOR

6.1 **Unit Operator.** Eagle Operating, Inc. is designated as the initial Unit Operator.

6.2 **Resignation or Removal.** Unit Operator may resign at any time. Unit Operator may be removed at any time by the affirmative vote of Working Interest Owners having a simple majority of the voting interest. If Unit Operator sells all or a simple majority of its initial Unit Participation interest, an election of a new Unit Operator is required.

6.3. **Selection of Successor.** Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by affirmative vote of Working Interest Owners owning a simple majority of the voting interest.

ARTICLE 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

7.6 **Reports to Working Interest Owners.** Unit Operator shall furnish Working Interest Owners monthly reports of all Unit Operations.

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

7.8 **Engineering and Geological Information.** Unit Operator shall furnish to all Working Interest Owners a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations. In addition, Unit Operator shall furnish Working Interest Owners with quarterly engineering summaries.

7.9 **Expenditures.** Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. In the event of an emergency, Unit Operator may immediately make or incur such expenditures as, in its opinion, are required to deal with the emergency. Unit Operator shall furnish Working Interest Owners, for information purposes, copies of its Authorities for Expenditures for any single project costing in excess of Fifty Thousand Dollars (\$50,000.00), and for lesser amounts when prepared for Unit Operator's own use.

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

ARTICLE 8 TAXES

8.1 **Property Taxes.** Beginning on the effective date, Unit Operator shall render and pay on behalf of the Working Interest Owners severance and gross products taxes assessed on oil and gas produced and *ad valorem* tax on all property subject to this agreement, before they become delinquent. Prior to the rendition date, each Working Interest Owner shall furnish the Unit Operator information as to burdens (to include, but not limited to, royalties, overriding royalties and production payments) and taxable and non-taxable interests on leases and oil and gas interests contributed by such Working Interest Owner. If the assessed tax of any leasehold estate or produced substance is reduced by reason of its being subject to outstanding excess royalties, overriding royalties, reimbursements, or production payments, the reduction in taxes shall inure to the benefit of the owner or owners of such leasehold or substance, and Unit Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Unit Operator shall charge the Working Interest Owners for their proportionate share of severance and gross products tax at the date the tax is assessed based on the value each Working Interest Owner receives for their sales of the unitized substances. Unit Operator shall charge the Working Interest Owners for their proportionate share of all other tax payments in the manner provided in Exhibit "E" and other Parties for their share in the manner provided in the Unit Agreement.

If Unit Operator considers any tax assessment improper, Unit Operator may, after notice to Working Interest Owners, protest within the time and manner prescribed by law, and prosecute the

protest to a final determination, unless all Parties vote in accordance with Article 4.3.2 to abandon the protest prior to final determination. All direct expenses incurred by Unit Operator in protesting an assessment will constitute a direct charge to the joint account only upon approval by a vote of the Working Interest Owners. During the pendency of administrative or judicial proceedings, Unit Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax of the joint account and other Parties, together with any interest and penalty accrued, and the total cost shall then be assessed against the Parties, and be paid by them as provided in Exhibit "E" and the Unit Agreement, respectively.

8.2 **Notices.** Each Working Interest Owner shall promptly furnish the Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by the Unit Operator. Each month, the Working Interest Owners shall furnish the Unit Operator with the gross value of any production taken in kind or other information necessary in order for the Unit Operator to compute the severance and gross products tax on the unitized substances.

8.3 **Other Taxes.** Each Working Interest Owner shall pay or cause to be paid all gathering and other taxes or excises due the State of North Dakota, the Federal Government, or otherwise, together with all licenses and excises, which are now imposed or may be imposed upon or with respect to the production or handling of its share of unitized substances.

ARTICLE 9 INSURANCE

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

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

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

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

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 **Wells.** All useable wells completed in the Unitized Formation.

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

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

10.2 **Inventory and Evaluation.** The Working Interest Owners shall at Unit Expense inventory and evaluate the wells and equipment taken over. Such inventory of equipment shall be limited to those items of equipment considered controllable under Exhibit "G" except, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory but shall be excluded from evaluation and investment adjustment. The evaluation shall be based on current market value as of the Effective Date of the unit.

10.3 **Investment Adjustment.** Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all wells and equipment taken over under Paragraph 10.1.2 and evaluated under Article 10.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all wells and equipment taken over under Paragraph 10.1.2 and evaluated under Article 10.2 by the 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. If the credit to any Working Interest Owner is greater than the amount charged against that Working Interest Owner, then the resulting net credit shall be paid to the Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 **Subsequent Phase II Investment Adjustment.** At such time as the term of the Plan of Unitization under Phase I has ended and the Phase II terms commenced, as provided in Article 5 of the Unit Agreement, all tangible Unit Equipment adjusted pursuant to the terms outlined in Article 10.3 hereinabove shall be owned by the Working Interest Owners based on their Phase II interest. A Phase II investment adjustment shall then be made based on the specific evaluations under Article 10.1.2 of existing tangible equipment taken over by the Unit and the original costs of tangible Unit Equipment paid for and owned by the Working Interest Owners in the proportions set out in Article 10.1.2. Each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Article 10.1.2 and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Article 10.1.2 by such Working Interest Owner's Phase II 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. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

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

10.6 **Ownership of Property and Facilities.** Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all wells, equipment, and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

10.7 **Surface Leases.** Upon the Effective Date hereof Working Interest Owners shall deliver to Unit Operator assignment(s) of all surface lease agreements pertaining to the Unit Area, and Unit Operator shall become responsible for all future rentals on behalf of Working Interest Owners. All said surface unit rental costs shall be apportioned to each Working Interest as set forth in Exhibit "D."

10.8 **Non-Unit Equipment.** Each Working Interest Owner shall solely be liable for all its equipment within the Unit Area which is not deemed necessary for Unit Operations and shall solely be responsible for the care, maintenance and removal of such equipment as required by contract, law or regulation.

10.9 **Useable Well.** All wells delivered to the Unit Operator shall be (a) in good physical condition, (b) completed in some portion of the Unitized Formation, (c) physically separated from formations not a part of the Unitized Formation as of the Effective Date, and (d) in compliance with North Dakota rules and regulations dealing with protection of potable water resources (North Dakota Administrative Code 43-02-03-20). Unit Operator shall make all determinations required under this Section 10.9.

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 in proportion to its respective Unit Participation for the Phase-In-Effect. Expenditures of investment nature shall be in proportion to its respective Phase II Unit Participation.

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

11.3 **Advance Billing.** 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 estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 **Lien and Security Interest of Unit Operator.** Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of 1% above the current prime rate charged by Colorado National Bank of Denver on the first day of the following month, or maximum rate as permitted by law whichever is the lesser. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured Party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election

of remedies or otherwise affect the lien rights or security interest as security for the payment of defaulting Working Interest Owner's share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Working Interest Owners to secure payment of Unit Operator's proportionate share of expense.

11.6 **Unpaid Unit Expense.** If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner, plus a risk penalty equal to two hundred percent (200%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is derived from a lease; or other contract for development; or a risk penalty equal to fifty percent (50%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is not derived from a lease or other contract for development. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 **Pre-Unitization Expense.** Prior to the Effective Date hereof, Unit Operator incurred certain costs and expenses, other than the cost of the staff of the Unit Operator, (herein referred to as "Pre-Unitization Expense") for and on behalf of the Working Interest Owners in anticipation of the Unit Agreement and this Agreement becoming effective. As soon as practicable after the Effective Date, Unit Operator shall submit to the Working Interest Owners a statement itemizing all such Pre-Unitization Expense. For the purposes of this Agreement, all Pre-Unitization Expense shall be considered an item of Unit Expense.

ARTICLE 12 NON-UNITIZED FORMATIONS

12.1 **Right to Operate.** Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement.

In exercising the right, however, such Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator shall produce Unitized Substances. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

12.2 **Dual Completions.** There shall be no dual completions of wells within the Unit Area as to the Unitized Formation and another formation.

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

13.2 **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.

13.3 **Creation of New Interest.** If any Lessee hereunder shall create any overriding royalty, production payment or other similar interest, hereafter referred to as "New Interest," out of its interest subject to this Agreement, such New Interest shall be transferred, created or assigned subject to all the terms and provisions of this Agreement. In the event the Lessee owning the interest from which the New Interest was created fails to pay any expenses and costs chargeable it under this Agreement and the production to the credit of such Lessee is insufficient for that purpose, the owner of the New Interest will be liable for the pro-rata portions of all costs and expenses for which the original Lessee, creating such New Interest, would have been liable by virtue of his ownership of the New Interest had the same not been transferred. In this event, the lien provided in Article 11.5 may be enforced against such New Interest. If the owner of the New Interest bears a portion of the costs and expenses or the same is enforced against such New Interest, the owner of the New Interest will be subrogated to the rights of the Unit Operator with respect to the interest primarily chargeable with such costs and expenses.

13.4 **Waiver of Rights to Partition.** Each Lessee and Working Interest Owner hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the interval of the Unitized Formation hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14 UNLEASED INTERESTS

14.1 **Treated as Leased.** If a Working Interest Owner owns in fee all or a part of the Oil and Gas Rights in any Tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract therein and a Royalty Interest as provided by law.

ARTICLE 15 LIABILITY, CLAIMS, SUITS, AND FORCE MAJEURE

15.1 **Individual Liability.** The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as

creating a partnership of any kind, joint venture, association or trust among Working Interest Owners.

15.2 **Settlements.** Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Ten Thousand Dollars (\$10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator.

All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. 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 the claim or suit shall be treated as any other claim or suit involving Unit Operations.

15.3 **Notice of Damages, Claims and Suits by Unit Operator to Lessees.** 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 not covered by insurance carried for the benefit of Lessees.

15.4 **Force Majeure.** Any obligation imposed by this Agreement on each Party, 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, or 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 beyond the reasonable control of such 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 the suspension of Unit Operations due to any of the causes set forth in this Article.

ARTICLE 16 INTERNAL REVENUE PROVISION

16.1 **Internal Revenue Provision.** Each Working Interest Owner hereby elects that it and the operations covered by this Agreement may be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, 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 Article shall apply in like manner to applicable state laws, regulations and rulings now in effect or hereafter enacted that have an effect similar to the Federal provisions referred to herein.

ARTICLE 17 NOTICES

17.1 **Notices.** All notices required hereunder shall be in writing and shall be deemed to have been properly served when received 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.

17.2 **Notice of Transfer of Title.** No change of title shall be binding on the Unit or Unit Operator until the first day of the calendar month next succeeding the date of receipt by Unit Operator of evidence, satisfactory to it, 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 Party or Parties acquiring such interest all benefits attributable hereunder to such interest.

ARTICLE 18 WITHDRAWAL OF WORKING INTEREST OWNER

18.1 **Withdrawal.** A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, the withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

18.2 **Limitation on Withdrawal.** Notwithstanding anything set forth in Article 18.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of the 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. Limitation on Withdrawal shall not affect transfers of title, conveyances or assignments by the Parties hereto.

ARTICLE 19 ABANDONMENT OF WELLS

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

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

ARTICLE 20 EFFECTIVE DATE AND TERM

20.1 **Effective Date.** This Agreement shall become effective when the Unit Agreement becomes effective.

20.2 **Term.** This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 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 21 ABANDONMENT OF OPERATIONS

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

21.1.1 **Oil and Gas Rights.** Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the Parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separated tracts.

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

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 in compliance with applicable laws and regulations.

21.1.4 **Cost of Salvaging.** The cost of abandonment of Unit Operations shall be a Unit Expense.

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

ARTICLE 22 SIGNING, RATIFICATION OR APPROVAL

22.1 **Original, Counterparts or Ratifications.** This Agreement may be signed, ratified or approved by signing the original of the instrument, a counterpart or other instrument adopting the provisions hereof, all with the same effect as if all parties had signed the same instrument. Parties signing, ratifying or otherwise approving this Agreement thereby agree to all of the provisions hereof.

22.2 **Prior Agreements.** It is recognized there are certain existing agreements by and between several of the Lessee or Working Interest Owners hereto, covering a portion of the Oil and Gas Rights subject to this Unit Operating Agreement. In case of any inconsistency or conflict between this Unit Operating Agreement and those certain existing agreements, this Unit Operating Agreement shall govern.

ARTICLE 23 SUCCESSORS AND ASSIGNS

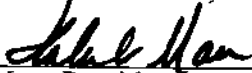
23.1 **Successor and Assigns.** The provisions hereof shall be covenants running with the lands, leases and interests covered hereby and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors and assigns of the Parties hereto.

Executed the date set opposite each name below but effective for all purposes as provided by Article 20.

UNIT OPERATOR AND WORKING INTEREST OWNER

DATED: 9/26/03

EAGLE OPERATING, INC.


Robert Mau, President
P. O. Box 853
Kenmare, ND 58746

OTHER WORKING INTEREST OWNERS

DATED: 9/26/03

EARL SCHWARTZ COMPANY,
a general partnership

Robert Mau

By Robert Mau, Managing Partner

DATED: 9-26-03

ESTATE OF EARL SCHWARTZ

Kathy Schwartz Mau PR

By Kathy Schwartz Mau, Personal Representative

By Kara Schwartz Johnson, Personal Representative

Kay Schwartz York PR

By Kay Schwartz York, Personal Representative

EXHIBIT "D"

Attached to and made a part of the Unit Operating Agreement for the Mohall-Madison Unit
Bottineau and Renville Counties, North Dakota

Tract No.	Owner	Working Interest	Tract Participation Phase No. 1	Net Tract Interest Phase No. 1	Tract Participation Phase No. 2	Net Tract Interest Phase No. 2
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WORKING INTEREST BY TRACT

1	ESTATE OF EARL SCHWARTZ	100.0000%	0.03177355	0.031773546	0.03685195	0.036851955
Tract Total:				3.177355%		3.685195%
2	GEORESOURCES, INC.	100.0000%	0.02310279	0.023102792	0.03563814	0.035638144
Tract Total:				2.310279%		3.563814%
3	GEORESOURCES, INC.	100.0000%	0.02875051	0.028750507	0.02115005	0.021150049
Tract Total:				2.875051%		2.115005%
4	ESTATE OF EARL SCHWARTZ	100.0000%	0.06951938	0.069519382	0.05327439	0.053274391
Tract Total:				6.951938%		5.327439%
5	EARL SCHWARTZ COMPANY	100.0000%	0.06241994	0.062419944	0.04838208	0.048382076
Tract Total:				6.241994%		4.838208%
6	EARL SCHWARTZ COMPANY	100.0000%	0.02899850	0.028998496	0.02642942	0.026429419
Tract Total:				2.899850%		2.642942%
7	EARL SCHWARTZ COMPANY	100.0000%	0.07975215	0.079752151	0.06549107	0.065491065
Tract Total:				7.975215%		6.549107%

8	GEORESOURCES, INC.	100.0000%	0.01528094	0.015280945	0.01201706	0.012017056
	Tract Total:			1.528094%		1.201706%
9	EARL SCHWARTZ COMPANY	100.0000%	0.00181387	0.00181387	0.00685413	0.006854129
	Tract Total:			0.181387%		0.685413%
10	EARL SCHWARTZ COMPANY	100.0000%	0.02353520	0.023535201	0.03581605	0.03581605
	Tract Total:			2.353520%		3.581605%
11	EARL SCHWARTZ COMPANY	100.0000%	0.07452790	0.074527897	0.07600284	0.076002842
	Tract Total:			7.452790%		7.600284%
12	EARL SCHWARTZ COMPANY	100.0000%	0.03036095	0.030360952	0.03794397	0.037943972
	Tract Total:			3.036095%		3.794397%
13	EAGLE OPERATING INC.	100.0000%	0.04455637	0.044556374	0.05177215	0.051772146
	Tract Total:			4.455637%		5.177215%
14	EARL SCHWARTZ COMPANY	100.0000%	0.06605622	0.066056221	0.04338279	0.043382787
	Tract Total:			6.605622%		4.338279%
15	EARL SCHWARTZ COMPANY	50.0000%	0.05929174	0.029645872	0.06175521	0.030877606
	EAGLE OPERATING, INC.	50.0000%	0.05929174	0.029645872	0.06175521	0.030877606
	Tract Total:			5.929174%		6.175521%
16	EARL SCHWARTZ COMPANY	100.0000%	0.05793039	0.057930394	0.06941745	0.069417454

	Tract Total:			5.793039%		6.941745%
17	EARL SCHWARTZ COMPANY	77.7500%	0.05144331	0.039997171	0.06350812	0.04937757
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARY LEONARD CHILDREN'S TRUST	0.3125%	0.05144331	0.00016076	0.06350812	0.00019846
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD TRUST III	0.3125%	0.05144331	0.00016076	0.06350812	0.00019846
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD TRUST III	0.3125%	0.05144331	0.00016076	0.06350812	0.00019846
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MADELON LEONARD TRUST III	0.3125%	0.05144331	0.00016076	0.06350812	0.00019846
	PANORAMIC ENERGY, INC. (unleased)	1.3125%	0.05144331	0.000675193	0.06350812	0.00083354
	PRINCE PETROLEUM COMPANY, INC. (unleased)	1.3125%	0.05144331	0.000675193	0.06350812	0.00083354
	WORTH MINERALS COMPANY (unleased)	2.6250%	0.05144331	0.001350387	0.06350812	0.00166709
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARY LEONARD CHILDREN'S TRUST (unleased)	3.9375%	0.05144331	0.00202558	0.06350812	0.00250063
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD REVOCABLE TRUST (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD REVOCABLE TRUST (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	MADELON L. BRADSHAW (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD TRUST III (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD TRUST III (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	BANK ONE, TEXAS, N.A., TRUSTEE OF THE MADELON LEONARD TRUST III (unleased)	1.96875%	0.05144331	0.00101279	0.06350812	0.00125032
	Tract Total:			5.144331%		6.350812%
18	EARL SCHWARTZ COMPANY	100.0000%	0.02899883	0.028998835	0.03075463	0.03075463
	Tract Total:			2.899883%		3.075463%

19	EARL SCHWARTZ COMPANY	100.0000%	0.05338148	0.053381482	0.04257433	0.04257433
	Tract Total:			5.338148%		4.257433%
20	EARL SCHWARTZ COMPANY	100.0000%	0.01198850	0.011988503	0.02048356	0.02048356
	Tract Total:			1.198850%		2.048356%
21	EARL SCHWARTZ COMPANY	87.50%	0.02806191	0.024554172	0.03821810	0.03344083
	EAGLE OPERATING, INC.	12.50%	0.02806191	0.003507739	0.03821810	0.00477726
	Tract Total:			2.806191%		3.821810%
22	EARL SCHWARTZ COMPANY	100.0000%	0.08712558	0.087125576	0.07015640	0.07015640
	Tract Total:			8.712558%		7.015640%
23	EARL SCHWARTZ COMPANY	75.0000%	0.03455676	0.025917572	0.03706834	0.02780126
	R. L. YORK COMPANY	25.0000%	0.03455676	0.008639191	0.03706834	0.00926709
	Tract Total:			3.455676%		3.706834%
24	EARL SCHWARTZ COMPANY	100.0000%	0.00256053	0.002560527	0.00640132	0.00640132
	Tract Total:			0.256053%		0.640132%
25	EARL SCHWARTZ COMPANY	100.0000%	0.00421268	0.00421268	0.00865644	0.00865644
	Tract Total:			0.421268%		0.865644%

INTEREST BY OWNER

	PHASE NO. 1	PHASE NO. 2
ESTATE OF EARL SCHWARTZ	10.129293%	9.012635%
EARL SCHWARTZ COMPANY	73.377752%	73.024375%
GEORESOURCES	6.713424%	6.880525%
EAGLE OPERATING, INC.	7.770998%	8.742701%
R. L. YORK COMPANY	0.863919%	0.926709%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARY LEONARD CHILDREN'S TRUST	0.016076%	0.019846%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD TRUST III	0.016076%	0.019846%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD TRUST III	0.016076%	0.019846%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MADELON LEONARD TRUST III	0.016076%	0.019846%
PANORAMIC ENERGY, INC. (unleased)	0.067519%	0.083354%
PRINCE PETROLEUM COMPANY, INC. (unleased)	0.067519%	0.083354%
WORTH MINERALS COMPANY (unleased)	0.135039%	0.166709%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARY LEONARD CHILDREN'S TRUST (unleased)	0.202558%	0.250063%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD REVOCABLE TRUST (unleased)	0.101279%	0.125032%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD REVOCABLE TRUST (unleased)	0.101279%	0.125032%
MADELON L. BRADSHAW	0.101279%	0.125032%

BANK ONE, TEXAS, N.A., TRUSTEE OF THE MIRANDA LEONARD TRUST III (unleased)	0.101279%	0.125032%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MARTHA LEONARD TRUST III (unleased)	0.101279%	0.125032%
BANK ONE, TEXAS, N.A., TRUSTEE OF THE MADELO LEONARD TRUST III (unleased)	0.101279%	0.125032%
TOTAL	100.000000%	100.000000%

EXHIBIT "E"

Attached to and made part of the Unit Operating Agreement for the MOHALL MADISON UNIT, Bottineau and Renville Counties, North Dakota

ACCOUNTING PROCEDURE JOINT OPERATIONS I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payment by Non-Operators

1. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
2. Each Non-Operator shall pay its proportion of all bills within thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Colorado National Bank of Denver on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

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- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charges shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eighteen percent (18 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover

the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem

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

12. Insurance

Net Premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, ,or

() Percentage Basis, Paragraph 1B

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Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

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

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

operation of the Joint Property:

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 500.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
 - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly

earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint

Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000 plus
- C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

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

- A. 5 % of total costs through \$100,000; plus

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

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

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

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material maybe supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received.

In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (b) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date

of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

- (c) Line pipe 24 inch OD and over and $\frac{3}{4}$ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current market price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property

At current market price, as determined by Paragraph A.

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

- (a) At current market price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

- (b) At current market price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

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

At current market price as determined by Paragraph A.

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

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at current market price. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

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

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

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the rights, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

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- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "F"

Attached to and made a part of the Unit Operating Agreement for the Mohall-Madison Unit Area, Renville and Bottineau Counties, North Dakota.

INSURANCE

The Operator shall carry for the benefit of the Working Interest Owners insurance to cover the Operator's operations on the Unit Area covered by this agreement as follows:

1. Workers Compensation and Employer's Liability insurance for a combined total of \$500,000 for each occurrence.
2. Public Liability and property damage insurance for a combined total of \$1,000,000 for each occurrence.
3. Automotive liability insurance and property damage insurance for a combined total of \$1,000,000 for each occurrence.
4. Control of well (including clean-up, containment, seepage, pollution, contamination, and redrilling expense) insurance for a combined total of \$1,000,000 for each occurrence. (This coverage must be maintained while drilling from spudding to completion).

The Operator shall require its contractors and subcontractors working or performing services on the Unit Area covered hereby to comply with the North Dakota workers compensation laws and to carry such other insurance and in such amounts as the Operator shall deem necessary.

Operator shall charge to the joint account an amount equal to the premiums applicable to the protection provided.

Operator shall promptly notify the Working Interest Owners of all losses involving damage to a joint account property in excess of \$50,000.

EXHIBIT "G"

Attached to and made a part of the Unit Operating Agreement for the Mohall-Madison Unit Area, Renville and Bottineau Counties, North Dakota.

INVENTORY AND PRICING PROCEDURE

1. INVENTORY EXPENSE. The cost of any physical inventory will be charged to the joint account. The Unit Operator may employ a maximum of two (2) persons to conduct the physical inventory and will not charge for the time it takes its employees to conduct an inventory of its own material.
2. PHYSICAL INVENTORY. Controllable equipment will be inventoried. It will be the responsibility of each Working Interest Owner to remove loose, idle or scrap equipment from its lease at its sole expense within a reasonable time not to exceed six months. All material and equipment inventoried will be referred to hereinafter as "loaned equipment".

It is recognized and agreed that certain inventoried material and equipment now in use may become surplus due to consolidation under unit operation. It is further agreed that such material and equipment will be loaned to the unit during the interim time of such consolidation at no cost to the unit. From time-to-time, as such consolidation progresses, Unit Operator will notify Working Interest Owners in writing of such surplus material or equipment from the unit area at their sole risk, cost and expense per Article 10.1.2. All such loaned equipment considered necessary for unit operations and not released as surplus per Article 10.1.2 will become unit property and credit will be given to the respective Working Interest Owners and priced according to the provisions of Exhibit "E" Section IV (Pricing of Joint Account Materials, Purchases, Transfers and Dispositions).

All well casing shall be inventoried; provided, however, that for purposes of the investment adjustment the conductor pipe and surface casing will be included in inventory but not adjusted. All remaining casing to the casing point or to the base of the Unitized Formation, whichever is the lesser, shall be priced. The production string of casing so priced shall be valued at 75% of current new cost.

Each individual well Operator will furnish Unit Operator, from its records of unitized wells, the following:

- Casing - size, weight, and grade, if known and depth set.
- Tubing - size, grade, weight and footage.
- Tubing Anchors and Packer - manufacturer, type and size.
- Sucker Rods - size and footage or number.
- Downhole Pumps or other Equipment - manufacture and size.
- Casing and Tubing Heads - make, size, series and working pressure.
- Wellhead Trees - make, size, series, working pressure, valves and chokes.
- Treaters, Separators, Tanks - manufacturer, capacity, dimension, type and working pressure.

The inventory shall be conducted in accordance with Article 10 of the Unit Operating Agreement and shall be limited to those items of equipment normally considered controllable by operators of oil and gas properties and indicated in Material Classification Manual prepared by the Council of Petroleum Accountant's of North America, in general use at the time of such inventory.

EXHIBIT "H"

Attached to and made a part of the Unit Operating Agreement for the Mohall-Madison Unit Area, Renville and Bottineau Counties, North Dakota.

EQUAL EMPLOYMENT OPPORTUNITY

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

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

III. OCCUPATIONAL SAFETY AND HEALTH ACT

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

IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000.00 or more or which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT"

- (1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

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

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

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

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

BEFORE THE INDUSTRIAL COMMISSION
OF THE STATE OF NORTH DAKOTA

CASE NO. 8133
ORDER NO. 9557

IN THE MATTER OF A HEARING CALLED
ON A MOTION OF THE COMMISSION TO
CONSIDER THE APPLICATION OF WARD
WILLISTON COMPANY FOR AN ORDER
APPROVING CERTAIN AMENDMENTS TO THE
UNIT OPERATING AGREEMENT FOR THE
MOUSE RIVER PARK-SHERWOOD UNIT,
RENVILLE COUNTY, NORTH DAKOTA; SO
AS TO AUTHORIZE THE RECOVERY OF A
RISK PENALTY AS PROVIDED BY
N.D.C.C. SECTION 38-08-09.4 AND FOR
SUCH FURTHER AND ADDITIONAL RELIEF
AS THE COMMISSION DEEMS
APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

(1) This cause was scheduled for hearing at 9:00 a.m. on the 8th day of October, 2003.

(2) Ward Williston Company (WWC) provided telephonic testimony in this matter, pursuant to North Dakota Administrative Code Section 43-02-03-88.2. A Telephonic Communication Affidavit was received on October 23, 2003, therefore, such testimony may be considered evidence.

(3) Commission Order No. 9407, signed March 26, 2003, approved the creation of the Mouse River Park-Madison Unit, located in Renville County, North Dakota.

(4) Order No. 9408, signed March 31, 2003, determined that the Unit would become effective April 1, 2003.

(5) North Dakota Century Code (NDCC) Section 38-08-09.4 was amended effective August 1, 2003, authorizing the inclusion of a risk penalty in Units approved by the Commission.

(6) WWC, operator of the Mouse River Park-Madison Unit, provided notice to all working interest owners of interest in the Unit of a working interest owner meeting to be held on September 29, 2003 to consider allowing the recovery of a risk penalty pursuant to the provisions of NDCC Section 38-08-09.4.

(7) Working interest owners, representing 94.2% interest in Phase I and 92.9% interest in Phase II, voted in favor of amending the Unit Operating Agreement to include a risk penalty effective October 1, 2003.

(8) There were no objections to this application.

(9) This application should be granted in order to protect correlative rights.

IT IS THEREFORE ORDERED:

(1) Section 11.6 of the Mouse River Park-Madison Unit Operating Agreement is hereby amended, effective October 1, 2003, to read as follows:

"Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner, plus a risk penalty equal to two hundred percent (200%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is derived from a lease or other contract for development; or a risk penalty equal to fifty percent (50%) of the defaulting Working Interest Owner's share of Unit Expense if the defaulting Working Interest Owner's interest is not derived from a lease or other contract for development. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator."

(2) Interpretation and application of the risk penalty provisions of Section 11.6 of the Unit Operating Agreement must be consistent with the terms and conditions of NDCC Section 38-08-09.4 that allows for the recovery of a risk penalty from owners electing not to participate in a Unit expense.

Dated this 24th day of October, 2003.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

/s/ John Hoeven, Governor

/s/ Wayne Stenehjem, Attorney General

/s/ Roger Johnson, Agriculture Commissioner



WILLIAM R. PEARCE 1910-1978
WILLIAM P. PEARCE
PATRICK W. DURICK
B. T. MOTHY DURICK
GARY R. THUNE •
DAVID E. REICH
JEROME C. KETTLESON
HARRY L. BOSCHEE •
LAWRENCE BENDER, PC •
JONATHAN P. SANSTEAD

ATTORNEYS AT LAW
314 EAST THAYER AVENUE
P.O. BOX 400
BISMARCK, NORTH DAKOTA 58502

TELEPHONE (701) 223-2890
FAX (701) 223-7865
EMAIL: lawoffice@pearceanddurick.com

OF COUNSEL
HARRY PEARCE

October 3, 2003

Mr. Bruce Hicks
Assistant Director
North Dakota Industrial Commission
Oil and Gas Division
600 East Boulevard
Bismarck, North Dakota 58505-0310

**NDIC CASE NO. 8132
APPLICATION OF EAGLE
OPERATING, INC.**

Dear Mr. Hicks:

Please find enclosed herewith for filing the following in regard to the above-captioned case:

- 1 AFFIDAVIT OF SERVICE BY MAIL dated September 17, 2003; and
- 2 AFFIDAVIT OF SERVICE BY MAIL dated September 26, 2003.

Thank you for your attention to this matter.

Should you have any questions, please advise.

Sincerely,

LAWRENCE BENDER

LB/leo
Enclosure

cc: Ms. Karlene Fine - (w/enc.)
Mr. Lynn Helms - (w/enc.)
Mr. Charles Carvell - (w/enc.)
Mr. Robert Mau - (w/enc.)

**BEFORE THE INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA**

CASE NO. 8132

**IN THE MATTER OF THE APPLICATION OF
EAGLE OPERATING, INC. FOR AN ORDER
OF THE COMMISSION APPROVING
CERTAIN AMENDMENTS TO THE UNIT
OPERATING AGREEMENT FOR THE
MOHALL-MADISON UNIT, RENVILLE AND
BOTTINEAU COUNTIES, NORTH DAKOTA;
SO AS TO AUTHORIZE THE RECOVERY OF
A RISK PENALTY AS PROVIDED BY N.D.C.C.
§ 38-08-09.4 AND FOR SUCH FURTHER AND
ADDITIONAL RELIEF AS THE COMMISSION
DEEMS APPROPRIATE.**



AFFIDAVIT OF SERVICE BY MAIL

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)

Lyn Odden, being first duly sworn, deposes and says that on the 17 day of September, 2003, she served the attached:

APPLICATION OF EAGLE OPERATING, INC.

by placing a true and correct copy thereof in an envelope addressed as follows:

Madelon Leonard Trust III
Bank One Texas NA Trustee
Drawer 99084
Fort Worth, TX 76199-0084

Martha Leonard Trust III
ATTN: Trust Department
P.O. Box 2605
Fort Worth, TX 76113-2605

Martha Leonard Revocable Trust
ATTN: Trust Department
P.O. Box 2605
Fort Worth, TX 76113-2605

Mary Leonard Childrens Trust
ATTN: Trust Department
P.O. Box 2605
Fort Worth, TX 76113-2605

Miranda Leonard Trust III
ATTN: Trust Department
P.O. Box 2605
Fort Worth, TX 76113-2605

Miranda Leonard Revocable Trust
ATTN: Trust Department
P.O. Box 2605
Fort Worth, TX 76113-2605

Geo Resources Inc.
P.O. Box 1505
Williston, ND 58802-1505

PANAN Energy Inc.
P.O. Box 1718
Fort Worth, TX 76101

VML Resources, Inc.
P.O. Box 1718
Fort Worth, TX 76101

Prince Petroleum Co., Inc.
115 West 7th Street, Suite 1310
Fort Worth, TX 76102

Madelon L. Bradshaw
2120 Ridgmar Blvd., Suite 12
Fort Worth, TX 76116


Panoramic Energy Inc.
7900 Monticello Dr.
Granbury, TX 76049

Earl Schwartz Estate
P.O. Box 853
Kenmare, ND 58746-0853

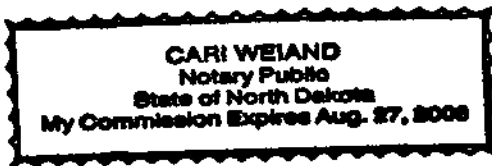
Earl Schwartz Company
P.O. Box 853
Kenmare, ND 58746

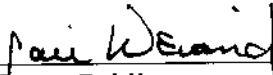
R. L. York Co.
58402 366 Avenue NW
Kenmare, ND 58746

and depositing the same, with postage prepaid, in the United States mail at Bismarck, North Dakota.


LYN ODDEN

Subscribed and sworn to before me this 17th day of September, 2003.




Notary Public
Burleigh County, North Dakota
My Commission expires: 8-27-08

**BEFORE THE INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA**

CASE NO. _____

**IN THE MATTER OF THE APPLICATION OF
EAGLE OPERATING, INC. FOR AN ORDER
OF THE COMMISSION APPROVING
CERTAIN AMENDMENTS TO THE UNIT
OPERATING AGREEMENT FOR THE
MOHALL-MADISON UNIT, RENVILLE AND
BOTTINEAU COUNTIES, NORTH DAKOTA;
SO AS TO AUTHORIZE THE RECOVERY OF
A RISK PENALTY AS PROVIDED BY N.D.C.C.
§ 38-08-09.4 AND FOR SUCH FURTHER AND
ADDITIONAL RELIEF AS THE COMMISSION
DEEMS APPROPRIATE.**



APPLICATION OF EAGLE OPERATING, INC.

Eagle Operating, Inc. ("Eagle"), for its application respectfully shows the North Dakota Industrial Commission ("Commission") as follows:

1.

That Eagle is a North Dakota corporation with its corporate offices located at 11 West Division, Suite 201, Kenmare, North Dakota, 58746.

2.

That by Order No. 9289 entered in Case No. 7894, dated October 17, 2002, the Commission established the Mohall-Madison Unit.

3.

That by Order No. 9324 entered in Case No. 7895 dated October 28, 2002, the Mohall-Madison Unit became effective November 1, 2002 at 7:00 A.M.

4.

That effective August 1, 2003 Section 38-08-09.4 of the North Dakota Century Code was amended specifically authorizing the recovery of a risk penalty from owners electing not to participate in the unit expense of plans of unitization approved and adopted by the Commission.

5.

That on or about September 26, 2003, a meeting of the Mohall-Madison Unit working interest owners will be held to consider, *inter alia*, an amendment to the Unit Operating Agreement for said unit. At said meeting, the working interest owners will have an opportunity to approve an amendment to the Unit Operating Agreement for the Mohall-Madison Unit to include a provision to allow the recovery of a risk penalty as provided by Section 38-08-09.4(3) of the North Dakota Century Code.

6.

That Eagle anticipates that in excess of fifty-five percent (55%) of the owners of the Mohall-Madison Unit will approve the amendments to the Unit Operating Agreement to be proposed at said working interest owners' meeting.

7.

That the amendments to be proposed and likely to be adopted are consistent with the provisions of Section 38-08-09.4 of the North Dakota Century Code, as amended effective August 1, 2003.

WHEREFORE, Eagle respectfully requests that this matter be set for hearing on October 8, 2003 and that thereafter the Commission enter an order approving certain amendments to the Unit

**BEFORE THE INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA**

CASE NO. 8132

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EAGLE OPERATING, INC. FOR AN ORDER
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CERTAIN AMENDMENTS TO THE UNIT
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MOHALL-MADISON UNIT, RENVILLE AND
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DEEMS APPROPRIATE.**



AFFIDAVIT OF SERVICE BY MAIL

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)

Lyn Odden, being first duly sworn, deposes and says that on the 26th day of September, 2003, she served the attached:

NOTICE OF HEARING OF EAGLE OPERATING, INC.

by placing a true and correct copy thereof in an envelope addressed as follows:

Bank One Trust-Madelon Leonard
Madelon Leonard Trust III
Bank One Texas NA Trustee
Drawer 99084
Fort Worth, TX 76199-0084

Bank One Trust-Martha Leonard
Martha Leonard Trust III
Bank One Texas NA Trustee
Drawer 99084
Fort Worth, TX 76199-0084

Bank One Trust-Mary Leonard
Mary Leonard Childrens Trust
Bank One Texas NA Trustee
Drawer 99084
Fort Worth, TX 76199-0084

Bank One Trust-Miranda Leonard
Miranda Leonard Trust III
Bank One Texas NA Trustee
Drawer 99084
Fort Worth, TX 76199-0084

GeoResources
P.O. Box 1505
Williston, ND 58802

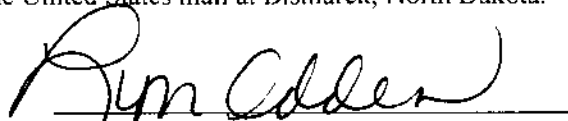
PANAN Energy Inc. and
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P.O. Box 1718
Fort Worth, TX 76101

Prince Petroleum
115 West 7th Street, Suite 1310
Fort Worth, TX 76102

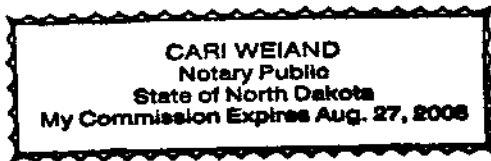
Madelon Bradshaw
2120 Ridgmar Blvd., Suite 12
Fort Worth, TX 76116

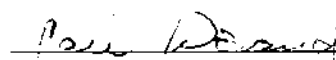
Panoramic Energy
7900 Monticello Dr.
Granbury, TX 76049

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LYN CADDEN

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Notary Public
Burleigh County, North Dakota
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**BEFORE THE INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA**

CASE NO. 8132

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§ 38-08-09.4 AND FOR SUCH FURTHER AND
ADDITIONAL RELIEF AS THE COMMISSION
DEEMS APPROPRIATE.**



NOTICE OF HEARING OF EAGLE OPERATING, INC.

PLEASE TAKE NOTICE that Eagle Operating, Inc. ("Eagle") has filed an application with the North Dakota Industrial Commission requesting an order of the Commission approving certain amendments to the Unit Operating Agreement for the Mohall-Madison Unit, Renville and Bottineau Counties, North Dakota; so as to authorize the recovery of a risk penalty as provided by Section 38-08-09.4 of the North Dakota Century Code and for such further and additional relief as the Commission deems appropriate.

A hearing will be held at 9:00 a.m. on October 8, 2003 at the Oil and Gas Division Office, 1016 East Calgary Avenue, Bismarck, North Dakota, to consider the request of Eagle Operating, Inc.

Pursuant to Section 38-08-09.4 of the North Dakota Century Code, you may object to Eagle's request for a risk penalty by responding in opposition to Eagle's application.

DATED this ____ day of September, 2003.

PEARCE & DURICK

By LS
LAWRENCE BENDER
Attorneys for Applicant
Eagle Operating, Inc.
314 East Thayer Ave.
P. O. Box 400
Bismarck, ND 58502

**BEFORE THE INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA**

CASE NO. 8132

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EAGLE OPERATING, INC. FOR AN ORDER
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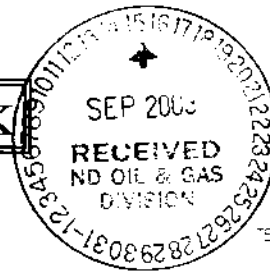
6.

That Eagle anticipates that in excess of fifty-five percent (55%) of the owners of the Mohall-Madison Unit will approve the amendments to the Unit Operating Agreement to be proposed at said working interest owners' meeting.

7.

That the amendments to be proposed and likely to be adopted are consistent with the provisions of Section 38-08-09.4 of the North Dakota Century Code, as amended effective August 1, 2003.

WHEREFORE, Eagle respectfully requests that this matter be set for hearing on October 8, 2003 and that thereafter the Commission enter an order approving certain amendments to the Unit



WILLIAM R. PEARCE 1910-1978
WILLIAM R. PEARCE
PATRICK W. DURICK
B. TIMOTHY DURICK
GARY R. THUNE •
DAVID E. RECH
JEROME C. KETTESON
JERRY L. BOSCHEE •
LAWRENCE BENDER, PC •
JONATHAN P. SANSTEAD

ATTORNEYS AT LAW
314 EAST THAYER AVENUE
P.O. BOX 400
BISMARCK, NORTH DAKOTA 58502

TELEPHONE 701/211-7890
FAX 701/211-7855
EMAIL lawoffice@pearceanddurick.com

OFFICE COUNSEL
HARRY R. PEARCE

September 15, 2003

Mr. Bruce Hicks
Assistant Director
North Dakota Industrial Commission
Oil and Gas Division
600 East Boulevard
Bismarck, North Dakota 58505

HAND DELIVERED

EAGLE OPERATING, INC.
ORDER OF THE COMMISSION
APPROVING CERTAIN
AMENDMENTS TO THE UNIT
OPERATING AGREEMENT FOR THE
MOHALL-MADISON UNIT, RENVILLE
AND BOTTINEAU COUNTIES, NORTH
DAKOTA

Dear Ms. Fine:

Please find enclosed herewith for filing an APPLICATION OF EAGLE OPERATING, INC.

If you should have any questions, please advise.

Sincerely,

LAWRENCE BENDER

LB/leo

Enclosure

cc: Ms. Karlene Fine - (w/enc.)
Mr. Lynn Helms - (w/enc.)
Mr. Charles Carvell - (w/enc.)
Mr. Robert Mau - (w/enc.)

BISMARCK TRIBUNE

Printing & Publishing

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			PD/ORD NO #8130				JL44										

CB

9-18

Ronda Dione Dick

Candace Boh

Bismarck Tribune

September 03

RONDA DIONE DICK

Notary Public, STATE OF NORTH DAKOTA
My Commission Expires AUGUST 21, 2004

Counties, North Dakota; so as to authorize the recovery of a risk penalty as provided by N.D.C.C. Section 38-08-09.4 and for such further and additional relief as the Commission deems appropriate. Case No. 8133: On a motion of the Commission to consider the application of Ward Williston Company for an order approving certain amendments to the Unit Operating Agreement for the Mouse River Park-Sherwood Unit, Renville County, North Dakota; so as to authorize the recovery of a risk penalty as provided by N.D.C.C. Section 38-08-09.4 and for such further and additional relief as the Commission deems appropriate.

Signed by,
John Hoeven, Governor
Chairman, ND Industrial Commission
9/18 - 185029

FIRST NOTICE

NOTICE OF PUBLICATION NORTH DAKOTA INDUSTRIAL COMMISSION BISMARCK, NORTH DAKOTA

The State of North Dakota by its Industrial Commission hereby gives notice pursuant to law and the rules and regulations of said Commission promulgated thereunder of the following public hearing to be held at 9:00 a.m. on October 8, 2003, North Dakota Oil and Gas Division Office, 1016 East Calgary Avenue, Bismarck, North Dakota. For the purpose of this hearing, the Commission, any member thereof acting as Examiner, or an Examiner appointed by the Commission will receive testimony and exhibits.

ATTENTION PERSONS WITH DISABILITIES: If you plan to attend the hearing and will need special facilities or assistance relating to a disability, please contact the North Dakota Industrial Commission at 701-328-3722 by September 29, 2003.

STATE OF NORTH DAKOTA TO:

All named parties and persons having any right, title, interest, or claim in the following cases and notices to the public: Case No. 8130: On a motion of the Commission to consider the application of Continental Resources, Inc. for an order pursuant to North Dakota Administrative Code (NDAC) Section 43-02-03-88.1 authorizing the conversion to enhanced recovery into the Cedar Hills North-Red River "B" Unit and South-Red River "B" Unit, of the Susan #21-6SH well, located in the NE 1/4 NW 1/4 of Section 6, T.131N., R.106W., Cedar Hills Field, Bowman County, North Dakota, pursuant to NDAC Chapter 43-02-05 and providing such other and further relief as the Commission deems appropriate. Case No. 8131: On a motion of the Commission to consider the application of Continental Resources, Inc. for an order pursuant to North Dakota Administrative Code (NDAC) Section 43-02-03-88.1 authorizing the conversion to enhanced recovery into the Medicine Pole Hills West-Red River "B" Unit and the Medicine Pole Hills-Red River Unit, of the Royce #1-26 well, located in the SW 1/4 SW 1/4 of Section 26, T.130N., R.104W., Medicine Pole Hills Field, Bowman County, North Dakota, pursuant to NDAC Chapter 43-02-05 and providing such other and further relief as the Commission deems appropriate. Case No. 8132: On a motion of the Commission to consider the application of Eagle Operating, Inc. for an order approving certain amendments to the Unit Operating Agreement for the Mohall-Madison Unit, Renville and Bottineau

You may reach us at:

Bismarck Tribune

Bismarck Tribune
701-223-2500 In State 800-472-2273
Fax 701-223-6584

Finder

Mendon Finder
701-663-6823 Toll Free 800-767-3590
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09/23/03

185029-B

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ISIC

Affidavit of Publication



STATE OF NORTH DAKOTA
County of Renville ss.

Notice of Publication

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Signed by,

John Hoeven, Governor
Chairman, ND Industrial Commission

LaVonne L. Erickson, of said County and State, being first duly sworn, deposes and says: That THE RENVILLE COUNTY FARMER is a weekly newspaper of general circulation, printed and published in the City of Mohall, in said County and State, by LaVonne L. Erickson, and has been such newspaper during the times hereinafter mentioned, and that I, LaVonne L. Erickson the undersigned, Owner/Manager/Publisher of said newspaper, have charge of the advertising department thereof, and have personal knowledge of all the facts stated in this affidavit and that the advertisement headed _____

Notice of Publication

a printed copy of which is hereto attached, was printed and published in the said newspaper for _____ One _____ successive issues, as follows:

Straight Matter Lines	59	
First Time Line Rate	.53	9/17, 2003
Subsequent Line Rates		, 2003
Tabulated Lines		
First Time Line Rate		, 2003
Subsequent Line Rates		, 2003
Column Inches		
First Time Inch Rate		, 2003
Subsequent Inch Rates		, 2003

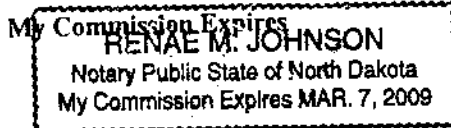
that the full amount of fees for publishing same, to-wit; the sum of \$ 31.27 insures solely to the benefit of the publisher of THE RENVILLE COUNTY FARMER; that no agreement or understanding for a division thereof has been made with any other persons, and that no part thereof has been agreed to be paid to any person whomsoever.

LaVonne L. Erickson

Subscribed and sworn before me this 9th day of Oct A.D. 2003.

Renae M. Johnson

Notary Public, North Dakota.



Affidavit of Publication

STATE OF NORTH DAKOTA)
County of Bottineau) ss
)



I, Wanda Gravseth being duly sworn, depose and say that I am the bookkeeper of The Bottineau County News, a weekly newspaper of general circulation, published in the City of Bottineau, in said county and state, and that the advertisement headed:

NOTICE OF PUBLICATION NORTH DAKOTA INDUSTRIAL COMMISSION BISMARCK, NORTH DAKOTA

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Signed by,
John Hoeven, Governor
Chairman, ND Industrial Commission

9-23

Notice of Publication

a printed copy of which is here annexed, was published in the regular and entire issue of said newspaper during the period and time of publication, and that the notice was published in the newspaper proper, and not in a supplement,

for one (1) consecutive week 9-23-03 to wit:

Straight Matter Lines	<u>39</u>	<u>20</u>
First Time Line Rate	<u>.63</u>	<u>9-23</u> , <u>2003</u>
Subsequent Line Rates		<u>20</u>
Tabulated Lines		<u>20</u>
First Time Line Rate		<u>20</u>
Subsequent Line Rates		<u>20</u>
Column Inches		<u>20</u>
First Time Inch Rate		<u>20</u>
Subsequent Inch Rates		<u>20</u>

Notary Fee Total Cost of Legal, \$ 24.57

Wanda Gravseth

Subscribed and sworn to me before this 25th day of September

A.D. 20 03

(Seal) Denise Hagen

Notary Public, State of North Dakota

My Commission expires 11-22, 2008

