UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to_____

EMPIRE PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**001-16653**	**73-1238709**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

4444 E. 66th Street, Lower Annex, Tulsa, OK 74316-4207

(Address of principal executive offices) (Zip Code)

918-488-8068
(Registrant's telephone number, including area code, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: NONE
Name of each exchange on which registered: N/A

Securities registered pursuant to 12(g) of the Act:

Title of each class: Common Stock, $0.001 par value
Name of each exchange on which registered

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☑ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
☑ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
☐ Yes ☑ No

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based upon the average bid and asked prices of the registrant's Common Stock on the last business day of the registrant's most recently completed second fiscal quarter was $3,609,232.

Note.—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in the Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a Plan confirmed by a court.

☐ Yes ☐ No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of December 31, 2011 was 85,564,235.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

EMPIRE PETROLEUM CORPORATION

FORM 10-K

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PART I

ITEM 1. BUSINESS.

Background

Empire Petroleum Corporation, a Delaware corporation (the "Company"), was incorporated in the State of Utah in August 1983 under the name Chambers Energy Corporation and domesticated in Delaware in March 1985 under the name Americomm Corporation. The Company's name was changed to Americomm Resources Corporation in July 1995. On May 29, 2001, Americomm Resources Corporation acquired Empire Petroleum Corporation, which became a wholly owned subsidiary of Americomm Resources Corporation. On August 15, 2001, Americomm Resources Corporation and Empire Petroleum Corporation merged and the Company's name was changed to Empire Petroleum Corporation. The Company operates from leased office space at 4444 E. 66th Street, Lower Annex, Tulsa, OK 74136-4207, and its telephone number is (918) 488-8068.

During the past three fiscal years, the Company has focused on the exploration of the Gabbs Valley Prospect and the evaluation of the South Okie Prospect as further described below.

Gabbs Valley Prospect

The Company owns a working interest in oil and gas leases in Nye and Mineral Counties, Nevada (the "Gabbs Valley Prospect"). As of December 31, 2011, the Company's working interest was 50% on 30,346 gross acres and 88.5% on 3,840 gross acres. The Gabbs Valley Prospect consisted of 34,186 gross acres.

In 2006, a test well, the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada was drilled to a depth of 5,195 feet. The well encountered a volcanic formation at 1,760 feet and scattered oil shows from 2,000 feet to total depth. After reaching 5,195 feet, the Company and its partners elected to suspend operations on the well, release the drilling rig, and associated equipment and personnel to evaluate the drilling and logging data. After the study was completed, Empire and its partners decided to conduct a thorough testing program on the well. The Company re-entered the well on April 17, 2007 and conducted a series of drill stem tests and recovered only drilling mud. It was then determined after considerable study that the formation is likely very sensitive to mud and water used in drilling which may have caused clays in the formation to swell preventing any oil that might be present to flow into the wellbore.

In 2008, the Company and its partners engaged W. L. Gore and Associates to carry out an Amplified Geochemical Imaging Survey which covered approximately sixteen square miles. The survey was concentrated along the apex of the large Cobble Cuesta structure which included the areas around the Empire Cobble Cuesta 1-12 exploratory test and the other test well drilled in the immediate area. Both of these tests encountered oil shows and the geochemical survey indicated potential hydrocarbons beyond the two well bores.

During 2010, the Company had a new Federal drilling unit formed and approved by the Bureau of Land Management ("BLM"). This unit was formed according to the Company's plans to drill a second test well on the prospect to be known as the Empire Paradise Unit 2-12. This test well was to be drilled to 6,000 feet, or 500 feet into the Triassic formation or into a zone that establishes commercial production at a lesser depth. Drilling operations were commenced July 19, 2010 and ceased on November 5, 2010. During the drilling phase, the Company had several zones where oil shows were observed. During its test from 3,698' to 3,786' a small amount of oil was recovered. Drilling continued to 4,248', encountering additional oil shows and the decision was made to set 7" production casing to 4,225'. A further attempt to deepen the hole failed when a heavy water flow was encountered at 4,248'. One further test through the pipe at 4,140' to 4,167' tested water. It was then decided to test the area between 3,700' to 3,782'. Oil was recovered from this interval and was swabbed at the rate of three (3) to five (5) barrels of oil per day. The recovered oil contained a significant amount of paraffin, which could have restricted the oil production. The Company then made the decision to plug the well, considering it to be non-commercial. One of the parties that had farmed out their interest to Empire for drilling the 2-12 test well asked for an assignment of the lease on which the well was drilled. Empire agreed to this assignment subject to such party's assumption of the plugging liabilities of both the 1-12 and 2-12 wells, plus the reclaiming and seeding of the two well sites and replacing Empire's $25,000 drilling bond. The acquiring party conducted additional testing of the well. The Company has been provided with such additional well data. Although the Company is not optimistic that further testing will improve the 2-12 well, it believes there is producible oil in the very large Cobble Cuesta Structure, which is located 150 miles from the nearest oil production. As a result, the Company is conducting additional geological studies with the expectation it will likely promote the drilling of another test on the prospect.

Other than a small refinery located approximately 100 miles from the Gabbs Valley Prospect, and a six inch gas pipeline crossing our prospect, there are no service networks are located near the prospect.

South Okie Prospect

On August 4, 2009, the Company purchased, for $25,000 and payment of lease rentals of $4,680, a nine month option to purchase oil and gas leases known as the South Okie Prospect in Natrona County, Wyoming.

The option allowed the Company to purchase the leasehold interests for $35,000. The Tensleep Sand at depths from 3,300 feet to 4,500 feet is the primary target. As of December 31, 2009, the Company acquired 11 miles of seismic data and studies of this data were completed in early January 2010. An additional geological study was also completed early January 2010. Based on these studies, the Company exercised its option in 2010. Subject to securing additional financing and/or engaging an industry partner, the Company plans to drill or cause to be drilled a test well in 2012.

As of December 31, 2011, the Company’s interest in the Okie Draw Prospect consisted of approximately 830 net acres of leases.

Competition

The oil and gas business is extremely competitive. The Company must compete with many long-established companies with greater financial resources and technical capabilities. The Company is not a significant participant in the oil and gas industry.

Markets; Price Volatility

The market price of oil and gas is volatile, subject to speculative movement and depends upon numerous factors beyond the control of the Company, including expectations regarding inflation, global and regional demand, political and economic conditions and production costs. Future profitability, if any, will depend substantially upon the prevailing prices for oil and gas. If the market price for oil and gas is significantly depressed in the future, it could have a material adverse effect on the Company's ability to raise additional capital necessary to finance operations and to explore the Gabbs Valley and South Okie Prospects. Lower oil and gas prices may also reduce the amount of oil and gas, if any, that can be produced economically from the Company's properties. While the prices of oil and gas remain volatile, the oil and gas industry has recently experienced historically high prices for oil and gas. The Company anticipates that the prices of oil and gas will fluctuate somewhat in the near future.

Regulation

The oil and gas industry is subject to extensive federal, state and local laws and regulations governing the production, transportation and sale of hydrocarbons as well as the taxation of income resulting therefrom.

Legislation affecting the oil and gas industry is constantly changing. Numerous federal and state departments and agencies have issued rules and regulations applicable to the oil and gas industry. In general, these rules and regulations regulate, among other things, the extent to which acreage may be acquired or relinquished; spacing of wells; measures required for preventing waste of oil and gas resources; and, in some cases, rates of production. The heavy and increasing regulatory burdens on the oil and gas industry increase the Company's cost of doing business and, consequently, affect profitability.

A substantial portion of the leases, which constitute the South Okie and Gabbs Valley Prospects are granted by the federal government and administered by the BLM and the Minerals Management Service ("MMS") of the U.S. Department of the Interior, both of which are federal agencies. Such leases are issued through competitive bidding, contain relatively standardized terms and require compliance with detailed BLM and MMS regulations and orders (which are subject to change by the BLM and the MMS). Leases are also accompanied by stipulations imposing restrictions on surface use and operations. Operations to be conducted by the Company on federal oil and gas leases must comply with numerous regulatory restrictions, including various nondiscrimination statutes. Federal leases also generally require a complete archaeology and environmental impact assessment prior to the authorization of an exploration or development plan.

The Company's oil and gas properties and operations are also subject to numerous federal, state and local laws and regulations relating to environmental protection. These laws govern, among other things, the amounts and types of substances and materials that may be released into the environment, the issuance of permits in connection with exploration, drilling and production activities, the reclamation and abandonment of wells and facility sites and the remediation of contaminated sites. These laws and regulations may impose substantial liabilities if the Company fails to comply or if any contamination results from the Company's operations.

Employees

As of December 31, 2011, the Company had one employee, a full-time secretary. Mr. Albert E. Whitehead, Chairman and Chief Executive Officer, devotes a considerable amount of time to the affairs of the Company and receives no compensation. For financial statement purposes, Mr. Whitehead's services have been recorded as contributed capital and expense in the amount of $50,000 for the years ended December 31, 2011 and 2010.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Gabbs Valley Prospect

As of December 31, 2011, the Gabbs Valley Prospect consisted of approximately 34,186 gross acres of federal leases located in Nye County, Nevada, of which the Company owns a 50% working interest.

As of December 31, 2011, two wells, the Empire Cobble Cuesta 1-12 and the Empire Paradise 2-12, had been drilled and tested on this prospect, but the wells were not completed. For more information regarding the Gabbs Valley Prospect, see "Gabbs Valley Prospect" under Item 1. Business.

COMPANY UNDEVELOPED ACREAGE (LEASES)
GABBS VALLEY PROSPECT, NYE COUNTY, NEVADA
AS OF DECEMBER 31, 2011

Federal Lease Number	Undeveloped Gross Acres	Acreage Net Acres	Productive Gross Acres	Acreage Net Acres	Effective Date	Remaining Term (Years)
N-82185	1,927.00	963.50	-	-	9/1/2006	5
N-82186	2,355.00	1,177.50	-	-	9/1/2006	5
N-82187	760.00	380.00	-	-	9/1/2006	5
N-82195	2,560.00	1,280.00	-	-	9/1/2006	5
N-82196	2,560.00	1,280.00	-	-	9/1/2006	5
N-82197	1,920.00	960.00	-	-	9/1/2006	5
N-85867	2,538.67	1,269.34	-	-	11/1/2006	7
N-85871	2,544.24	1,272.12	-	-	11/1/2006	7
N-85873	2,400.00	1,200.00	-	-	11/1/2006	7
N-85876	2,461.00	1,230.50	-	-	11/1/2006	7
N-86998	2,560.00	1,280.00	-	-	11/1/2006	7
N-86999	2,560.00	1,280.00	-	-	11/1/2006	7
N-87000	2,560.00	1,280.00	-	-	11/1/2006	7
N-89136	640.00	320.00	-	-	12/1/2011	9
N-90505	1,920.00	1,699.20	-	-	2/1/2012	10
N-90506	1,920.00	1,699.20	-	-	2/1/2012	10
TOTALS	34,185.91	18,571.36				

During the last three years, the Company has drilled one well, the Empire Paradise Unit 2-12, which is in the Gabbs Valley Prospect. For additional information regarding this well, see Item 1 of this Form 10-K.

As of December 31, 2011, the Company’s interest in the Okie Draw Prospect consisted of approximately 830 net acres of leases.

COMPANY UNDEVELOPED ACREAGE (LEASES)
OKIE DRAW PROSPECT, NATRONA COUNTY, WYOMING
AS OF DECEMBER 31, 2011

Federal Lease Number	Undeveloped Gross Acres	Acreage Net Acres	Productive Gross Acres	Acreage Net Acres	Effective Date	Remaining Term (Years)
WYW-0323746	240.00	30.00	-	-	11/1/1972	HBP
WYW-036587	320.00	40.00	-	-	11/1/1972	HBP
WYW-036587	40.00	40.00	-	-	11/1/1972	HBP
WYW-1744647	720.00	720.00	-	-	10/1/2007	6
	1,320.00	830.00				

CHEYENNE RIVER PROSPECT
NIOBRARA COUNTY, WYOMING
OIL & GAS PRODUCTION

	2011*	2010*	2009**

Revenue	$0.00	$0.00	$9,793.57
Production costs excluding depreciation, depletion, amortization and impairment	$0.00	$0.00	$7,244.85
Average sales prices (Bbl)	$0.00	$0.00	$33.65
Oil production (Bbl)	0.00	0.00	1,991.81
Depreciation, depletion & amortization	$0.00	$0.00	$0.00
Impairment of oil & gas production	$0.00	$0.00	$0.00

* The Company sold the Cheyenne River Prospect in 2009.
** All oil sales revenue and production for fiscal year 2009 related to the Cheyenne River Prospect.

ITEM 3. LEGAL PROCEEDINGS.

As of December 31, 2011, neither the Company nor its properties were subject to any legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

The Company's Common Stock is traded on the OTCQB under the symbol "EMPR".

The following table sets forth the high and low bid information for the Company's common stock during the time periods indicated, as reported by NASDAQ.

Year ending December 31, 2010:

Quarter	High	Low
03/31/10	.25	.065
06/30/10	.19	.05
09/30/10	.245	.01
12/31/10	.21	.03

Year ending December 31, 2011:

Quarter	High	Low
03/31/11	.094	.0264
06/30/11	.07	.0415
09/30/11	.055	.031
12/31/11	.045	.017

Quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Number of Holders of Common Stock

At December 31, 2011, there were approximately 197 stockholders of record of the Company's Common Stock.

Dividends

The Company has never paid cash dividends on its Common Stock. The Company intends to retain future earnings for use in its business and, therefore, does not anticipate paying cash dividends on its Common Stock in the foreseeable future.

Recent Sales of Unregistered Securities

On or about February 24, 2011, the Company settled outstanding invoices of two third party service providers. One such invoice was settled in the net amount of $54,990 by paying $25,000 in cash and issuing 60,000 shares of Common Stock and the other such invoice was settled by issuing 435,000 shares of Common Stock for the amount owed of $43,500.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of $0.05 per share, which resulted in a total investment of $100,000.

For information about additional private equity placements conducted by the Company, see “Private Equity Placements” in Item 7 of this From 10-K.

The offers and sales related to the securities described above were not registered under the Securities Act of 1933, as amended, in reliance upon the exemption from the registration requirements of that act provided by Section 4(2) thereof and Regulation D promulgated by the SEC thereunder. The recipients of the securities are sophisticated investors with the experience and expertise necessary to evaluate the merits and risks of an investment in the Company's stock and the financial means to bear the risks of such an investment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary Note Regarding Forward-Looking Statements.

All statements, other than statements of historical fact, contained in this report are forward-looking statements. Forward-looking statements generally are accompanied by words such as "anticipate," "believe," "estimate," "expect," "may," "might," "potential," "project" or similar statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Factors that could cause results to differ materially from the results discussed in such forward-looking statements include:

* the need for additional capital,

* the costs expected to be incurred in exploration and development,

* unforeseen engineering, mechanical or technological difficulties in drilling wells,

* uncertainty of exploration results,

* operating hazards,

* competition from other natural resource companies,

* the fluctuations of prices for oil and gas,

* the effects of governmental and environmental regulation, and

* general economic conditions and other risks described in the Company's filings with the Securities and Exchange Commission (the "SEC").

Information on these and other risk factors are discussed under "Factors That May Affect Future Results" below. Accordingly, the actual results of operations in the future may vary widely from the forward-looking statements included herein, and all forward-looking statements in this Form 10-K are expressly qualified in their entirety by the cautionary statements in this paragraph.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief and expectations only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Factors That May Affect Future Results.

The Company does not have any significant on-going income producing oil and gas properties and has limited financial resources.

For the past three fiscal years, the Company has financed its operations primarily from sales of its equity securities and from loans made to the Company by Albert E. Whitehead, the Company's Chief Executive Officer. There is no assurance that the Company will be able to continue to finance its operations through the sale of its equity securities, or through loans or advances by third parties. In addition, Mr. Whitehead has no obligation to advance the Company any additional money, and there is no assurance that he will do so.

The Company reported losses of $247,432 and $2,627,902 for the years ended December 31, 2011 and 2010, respectively. The Company also had an accumulated deficit of $14,006,553 as of December 31, 2011. The Company can provide no assurance that it will be profitable in the future and, if the Company does not become profitable, it may have to suspend its operations. As a result of the foregoing, the audit report of the Company's independent registered public accounting firm relating to the Company's financial statements has been modified because of a going concern uncertainty. If the Company is able to raise the funds necessary to continue its operations, its future performance will be dependent on the successful drilling results of its inventory of unproved locations in Wyoming and Nevada. The failure of drilling activities to achieve sufficient quantities of economically attractive reserves and production would have a material adverse effect on the Company's liquidity, operations and financial results.

The Company could be adversely affected by fluctuations in oil and gas prices.

Even if the Company's drilling activities achieve commercial quantities of economically attractive reserves and production revenue, the Company will remain subject to prevailing prices for oil, natural gas and natural gas liquids, which are dependent upon numerous factors such as weather, economic, political and regulatory developments and competition from other sources of energy. The volatile nature of the energy markets makes it particularly difficult to estimate future prices of oil, natural gas and natural gas liquids. Prices of oil, natural gas and natural gas liquids are subject to wide fluctuations in response to relatively minor changes in circumstances,
and there can be no assurance that future prolonged decreases in such prices will not occur. All of these factors are beyond the control of the Company. Any significant decline in oil and gas prices could have a material adverse effect on the Company's liquidity, operations and financial condition.

The Company could be adversely affected by increased costs of service providers utilized by the Company.

In accordance with customary industry practice, the Company relies on independent third party service providers to provide most of the services necessary to drill new wells, including drilling rigs and related equipment and services, horizontal drilling equipment and services, trucking services, tubulars, fracing and completion services and production equipment. The industry has experienced significant price fluctuations for these services during the last year and this trend is expected to continue into the future. These cost uncertainties could, in the future, significantly increase the Company's development costs and decrease the return possible from drilling and development activities, and possibly render the development of certain proved undeveloped reserves uneconomical.

The Company is subject to numerous drilling and operating risks.

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Company's operations may be curtailed, delayed or canceled as a result of title problems, weather conditions, compliance with governmental requirements, mechanical difficulties and shortages or delays in the delivery of equipment. In addition, the Company's properties may be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations.

The Company's insurance policies may not adequately protect the Company against certain unforeseen risks.

In accordance with customary industry practice, when conducting drilling operations, the Company maintains insurance against some, but not all, of the risks described herein. There can be no assurance that any insurance will be adequate to cover the Company's losses or liabilities. The Company cannot predict the continued availability of insurance, or its availability at premium levels that justify its purchase.

The Company is subject to various environmental risks, and governmental regulation relating to environmental matters.

The Company is subject to a variety of federal, state and local governmental laws and regulations related to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous materials. These regulations subject the Company to increased operating costs and potential liability associated with the use and disposal of hazardous materials. Although these laws and regulations have not had a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that the Company will not be required to make material expenditures in the future. Moreover, the Company anticipates that such laws and regulations will become increasingly stringent in the future, which could lead to material costs for environmental compliance and remediation by the Company. Any failure by the Company to obtain required permits for, control the use of, or adequately restrict the discharge of hazardous substances under present or future regulations could subject the Company to substantial liability or could cause its operations to be suspended. Such liability or suspension of operations could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's activities are subject to extensive governmental regulation. Oil and gas operations are subject to various federal, state and local governmental regulations that may be changed from time to time in response to economic or political conditions. From time to time, regulatory agencies have imposed price controls and limitations on production in order to conserve supplies of oil and gas. In addition, the production, handling, storage, transportation and disposal of oil and gas, by-products thereof and other
substances and materials produced or used in connection with oil and gas operations are subject to regulation under federal, state and local laws and regulations primarily relating to protection of

human health and the environment. To date, expenditures related to complying with these laws and for remediation of existing environmental contamination have not been significant in relation to the operations of the Company. There can be no assurance that the trend of more expansive and stricter environmental legislation and regulations will not continue.

The Company is subject to intense competition.

The Company operates in a highly competitive environment and competes with major and independent oil and gas companies for the acquisition of desirable oil and gas properties, as well as for the equipment and labor required to develop and operate such properties. Many of these competitors have financial and other resources substantially greater than those of the Company.

The Company currently depends on the Company's Chief Executive Officer.

The Company is dependent on the experience, abilities and continued services of its current Chief Executive Officer and President, Albert E. Whitehead. Mr. Whitehead has played a significant role in the development and management of the Company. The loss or reduction of services of Mr. Whitehead could have a material adverse effect on the Company.

There has been a limited public trading market for the Company's Common Stock, and there can be no assurance that an active trading market will be sustained.

There can be no assurance that the Common Stock will trade at or above any particular price in the public market, if at all. The trading price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results or even mild expressions of interest on a given day. Accordingly, the Common Stock could experience substantial price changes in short periods of time. Even if the Company is performing according to its plan and there is no legitimate company-specific financial basis for this volatility, it must still be expected that substantial percentage price swings will occur in the Company's Common Stock
for the foreseeable future.

Certain of the outstanding shares of the Company's Common Stock are "restricted securities" under Rule 144 of the Securities Act of 1933, as amended, and (except for shares purchased by "affiliates" of the Company as such term is defined in Rule 144) would be eligible for sale as the applicable holding periods expire. In the future, these shares may be sold only pursuant to a registration statement under the Securities Act of 1933, as amended, or an applicable exemption, including pursuant to Rule 144. Under Rule 144, a person who has owned common stock for at least one year may, under certain circumstances, sell within any three-month period a number of shares of common stock that does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume during the four calendar weeks prior to such sale. A person who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned the restricted securities for the last two years is entitled to sell all such shares without regard to the volume limitations, current public information requirements, manner of sale provisions and notice requirements. Sale or the expectation of sales of a substantial number of shares of Common Stock in the public market by selling stockholders could adversely affect the prevailing market price of the Common Stock, possibly having a depressive effect on any trading market for the Common Stock, and may impair the Company's ability to raise capital at that time through additional sales of its equity securities.

The Company does not expect to declare or pay any dividends in the foreseeable future.

The Company has not declared or paid any dividends on its Common Stock. The Company currently intends to retain future earnings to fund the development and growth of its business, to repay indebtedness and for general corporate purposes, and therefore, does not anticipate paying any cash dividends on its Common Stock in the foreseeable future.

The Company's Common Stock may be subject to secondary trading restrictions related to penny stocks.

Certain transactions involving the purchase or sale of Common Stock of the Company may be affected by a SEC rule for "penny stocks" that imposes additional sales practice burdens and requirements upon broker-dealers that purchase or sell such securities. For transactions covered by this penny stock rule, broker-dealers must make certain disclosures to purchasers prior to purchase or sale. Consequently, the penny stock rule may impede the ability of broker-dealers to purchase or sell the Company's securities for their customers and the ability of persons now owning or subsequently acquiring the Company's securities to resell such securities.

RESULTS OF OPERATIONS

GENERAL TO ALL PERIODS

The Company's primary business is the exploration and development of oil and gas interests. The Company has incurred significant losses from operations, and there is no assurance that it will achieve profitability or obtain funds necessary to finance its operations.

For all periods presented, the Company's effective tax rate is 0%. The Company has generated net operating losses since inception, which would normally reflect a tax benefit in the statement of operations and a deferred asset on the balance sheet. However, because of the current uncertainty as to the Company's ability to achieve profitability, a valuation reserve has been established that offsets the amount of any tax benefit available for each period presented in the statements of operations.

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2011, COMPARED TO TWELVE MONTH PERIOD ENDED DECEMBER 31, 2010

For the twelve months ended December 31, 2011 and 2010, sales revenue was $0. The Company does not have any producing wells at this time.

Production and operating expenses decreased $156,114 to $22,060 for the twelve months ended December 31, 2011, from $178,174 for the same period in 2010. This decrease was primarily due to the termination of leases on the Gabbs Valley Prospect.

General and administrative expenses decreased by $9,863 to $222,133 for the twelve months ended December 31, 2011, from $231,996 for the same period in 2010. The decrease was primarily due to a decrease in insurance costs in 2011.

Well abandonment expense decreased to $0 for the twelve months ended December 31, 2011 from $2,221,293 in 2010 due to the Company's assignment of the Paradise Unit 1-12 well to another leaseholder in 2010.

There was no depreciation expense attributable to the twelve months ended December 31, 2011 or December 31, 2010 because the depreciable assets were fully depreciated.

For the reasons discussed above, net loss decreased $(2,380,470) from $(2,627,902) for the twelve months ended December 31, 2010, to $(247,432) for the twelve months ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of December 31, 2011, the Company had $4,978 of cash on hand. The Company's cash on hand will not be sufficient to fund its operations during the next 12 months. The Company expects to incur costs of approximately $10,000 per month relating to general administrative, office and other expenses. In order to sustain the Company's operations on a long term basis, the Company intends to continue to look for merger opportunities and consider public or private financings. To the extent that it is necessary, the Company expects that management will support the Company financially for several months to allow the Company to consummate a merger
opportunity, or public or private financing (see subsequent events).

PRIVATE EQUITY PLACEMENTS

In a private placement concluded on January 26, 2010, the Company received subscriptions for 21,431,661 shares of its common stock, par value $0.001 per share, with the aggregate offering price of such shares being $1,500,216. The material terms and conditions applicable to the purchase and sale of the securities in the private placement are set forth in the form of the Securities Purchase Agreement included as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009.

Subsequent to this private placement, the Company determined that it needed to enter into the farm-in agreement (see Note 4) and raise additional funds in order to successfully drill a new test well on the Gabbs Valley Prospect. In July 2010, the Company completed the private placement offering by issuing 2,500,002 additional shares of common stock, and 1,250,001 additional warrants to purchase shares of common stock at a price of $.50, which expired on December 31, 2011, as applicable, with an aggregate purchase price of $225,000. Proceeds from this private placement were utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (see Note 2). Any remaining funds were used for general working capital purposes.

Proceeds of the July 2010 private placement were allocated $57,500 to common stock warrants and $167,500 to common stock and paid in capital. The value of the warrants was estimated using the Black-Scholes Valuation Model with the following weighted average assumptions: risk free interest rate of .30%, no dividend yield, volatility factor of the expected market price of the Company's common stock of 155% to 157% (depending on the date of sale), and a weighted average expected life of the warrants of one year. These warrants have expired.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of $0.05 per share, which resulted in a total investment of $100,000.

SALE OF WORKING INTEREST

In October 2010, the Company sold 7% of its working interest in the Gabbs Valley Prospect leases for $700,000. In connection with such sale, the purchasers were granted a working interest in the Paradise Unit 2-12 well, unit leases and an option to participate in the farmin of the non-unit leases, which option has expired.

ADVANCE FROM RELATED PARTY

On February 1, 2011, the Albert E. Whitehead Living Trust, under the terms of a convertible note, advanced $100,000 to the Company. The note has a term of one (1) year and accrues interest at the rate of four (4) percent per annum. During 2011, there was no principal or interest paid on the note. At December 31, 2011, $3,250 of interest had accrued. The principal and interest owed under the note may be converted by the holder into Common Stock at the rate of $0.10 per share. The maturity date of the note has been extended to August 1, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

None

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because estimates and assumptions require significant judgment, future actual results could differ from those estimates and could have a significant impact on the Company's results of operations, financial position and cash flows. The Company re-evaluates its estimates and assumptions at least on a quarterly basis. The following policies may involve a higher degree of estimation and assumption:

Successful Efforts Accounting - Under the successful efforts method of accounting, the Company capitalizes all costs related to property acquisitions and successful exploratory wells, all development costs and the costs of support equipment and facilities. Certain costs of exploratory wells are capitalized pending determination that proved reserves have been found. Such determination is dependent upon the results of planned additional wells and the cost of required capital expenditures to produce the reserves found.

All costs related to unsuccessful exploratory wells are expensed when such wells are determined to be non-productive and other exploration costs, including geological and geophysical costs, are expensed as incurred. The application of the successful efforts method of accounting requires management's judgment to determine the proper designation of wells as either developmental or exploratory, which will ultimately determine the proper accounting treatment of the costs incurred. The results from a drilling operation can take considerable time to analyze, and the determination that commercial reserves have been discovered requires both judgment and application of industry experience. Wells may be completed that are assumed to be productive and actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. The evaluation of oil and gas leasehold acquisition costs requires management's judgment to estimate the fair value of exploratory costs related to drilling activity in a given area.

Impairment of unproved oil and gas properties - Capitalized drilling costs are reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to expense. Management's assessment of the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such leaseholds impact the amount and timing of impairment provisions. An impairment expense could result if oil and gas prices decline in the future as it may not be economic to develop some of these unproved properties.

Estimates of future dismantlement, restoration, and abandonment costs - the Company accounts for future abandonment costs of wells and related facilities in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting for Asset Retirement Obligations. Under this method of accounting, the accrual for future dismantlement and abandonment costs is based on estimates of these costs for each of the Company's properties based upon the type of production structure, reservoir characteristics, depth of the reservoir, market demand for equipment, currently available procedures and consultations with construction and engineering consultants. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make estimates and judgments that are subject to future revisions based upon numerous factors, including changing technology and the political and regulatory environment and, estimates as to the proper discount rate to use and timing of abandonment.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements of the Company are set forth on pages 25 through 34 at the end of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation under the supervision of the Company's Chief Executive Officer (and principal financial officer) of the effectiveness of the design and operation of the Company's disclosure
controls and procedures pursuant to Securities Exchange Act Rules 13a - 15(e) and 15d - 15(e). Based on this evaluation, the Company's Chief Executive Officer (and principal financial officer) has concluded that the disclosure controls and procedures as of the end of the period covered by this report are effective.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's Chief Executive Officer (and principal financial officer) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal controls were designed to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of control effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's Chief Executive Officer (and principal financial officer) made an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Company's Chief Executive Officer (and principal financial officer) used the criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's Chief Executive Officer (and principal financial officer) concluded that as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC, which only require management's report in this annual report.

Changes on Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting identified in connection with the Company's evaluation of disclosure controls and procedures which occurred during the Company's last fiscal quarter (the fourth fiscal quarter in the case of an annual report) that has materially affected or that is reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following lists the directors and executive officers of the Company:

Name	Age	Position
Albert E. Whitehead	81	Director, Chairman & Chief Executive Officer
John C. Kinard	78	Director
Montague H. Hackett, Jr.	79	Director
Kevin R. Seth	52	Director

_____

Directors hold office until their successors are elected by the shareholders of the Company and qualified. Executive officers serve at the pleasure of the Board of Directors.

Albert E. Whitehead.

Mr. Whitehead has been a member of the Company's Board of Directors since 1991 and served as Chairman of the Board and Chief Executive Officer from March 1998 to May 2001, when John P. McGrain assumed such role. Mr. Whitehead again assumed the role of Chairman and Chief Executive Officer on April 16, 2002 upon the resignation of Mr. McGrain. Until February 5, 2008 Mr. Whitehead also served as the Non-Executive Chairman of Coastal Energy Company (formerly PetroWorld Corp.), a company that is traded on the London Stock Exchange's Alternative Investment Market and the Toronto Stock Exchange in Canada. Mr. Whitehead served as the Chairman and Chief Executive Officer of Seven Seas Petroleum Inc., a publicly held company, engaged in international oil and gas exploration from February 1995 to May 1997. From April 1987 through January 1995, Mr. Whitehead served as Chairman and Chief Executive Officer of Garnet Resources Corporation, a publicly held oil and gas exploration and development company. Mr. Whitehead's experience in the oil and gas industry, along with his familiarity with the day-to-day operations of the Company, make him well suited to serve on the Company's Board of Directors.

John C. Kinard.

Mr. Kinard has served as a Director of the Company since June 1998 and is currently a Partner in Silver Run Investments, LLC, an oil and gas investment firm. Mr. Kinard serves as a Managing Partner of Remuda Resources LLC, a private oil and gas exploration company. From 1990 through December 1995, Mr. Kinard served as President of Glen Petroleum, Inc., a private oil and gas exploration company. From 1990 through 2002, Mr. Kinard also served as the Chairman of Envirosolutions UK Ltd., a private industrial wastewater treatment company. Mr. Kinard's longstanding relationship with the Company and his knowledge of the oil and gas industry make him well equipped to serve on the Company's Board of Directors.

Montague H. Hackett, Jr.

Montague H. Hackett, Jr., a graduate of Princeton University and Harvard Law School, joined the Empire Board as a director in June 2006. Over the years, Mr. Hackett has been associated with various natural resource companies both as a director and as an officer. In the past five years, he has been Co-Chairman and a director of Victory Ventures LLC, a New York venture capital company and International Energy Services, Inc., a Houston based oilfield service company, with operations in Russia and Kazakstan. Given Mr. Hackett's knowledge of the oil and gas industry and his general business knowledge, Mr. Hackett is a good fit as a member of the Company's Board of Directors.

Kevin R. Seth.

Mr. Seth has served as a Director of the Company since February 23, 2011 and is a partner of Edgewood Management LLC, a registered investment advisor, based in New York City. Prior to joining Edgewood in 1995, Mr. Seth worked with Credit Suisse First Boston in London, New York and Boston. Mr. Seth graduated from Montana State University with a B.S. Degree in Pre-Law and Economics and has served for the past ten (10) years as either Vice-Chairman or Chairman of the University Investment Committee at Montana State University. Mr. Seth's broad business experience will allow him to provide considerable insight into the business decisions the Company will face and results in him being well suited to serve as a member of the Company's Board of Directors.

IDENTIFICATION OF THE AUDIT COMMITTEE; AUDIT COMMITTEE FINANCIAL EXPERT

As of December 31, 2011, the Company had not established any committees (including an audit committee) because of the small size of its Board of Directors. As such, the Company does not have an audit committee or an audit committee financial expert serving on such committee. As of December 31, 2011, the entire Board of Directors (Messrs. Whitehead, Kinard, Hackett and Seth)
essentially serve as the Company's audit committee.

CODE OF ETHICS

The Company has adopted a Code of Ethics that applies to all of the Company's directors and employees, including the Company's principal executive officer, principal financial officer and principal accounting officer or persons performing similar functions. The Company undertakes to provide any person without charge, upon request, a copy of the Code of Ethics. Requests may be directed to Empire Petroleum Corporation, 4444 E. 66th Street, Lower Annex, Tulsa, Oklahoma 74136-4207, or by calling (918) 488-8068.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers, and persons who beneficially own more than 10 percent of a registered

class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company.

Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company and any written representations that in other reports were required during the year ended December 31, 2011, to the Company's knowledge, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during the year ended December 31, 2011 were complied with on a timely basis.

ITEM 11. EXECUTIVE COMPENSATION.

The Board of Directors does not have a Compensation Committee.

EXECUTIVE COMPENSATION

During the last two completed fiscal years, no executive officer received a salary or any other benefits as a part of executive compensation. The Company's only named executive officer, Albert E. Whitehead, does not hold any stock options and has not received any other award under an equity incentive plan.

DIRECTORS COMPENSATION

In return for serving as a member of the Board of Directors of the Company, Mr. Seth was granted in 2011 options to purchase 150,000 shares of the Company's stock under the 2006 Stock Incentive Plan, at a strike price of $0.10 per share, which was the closing price on the date of the grant. At the end of fiscal year 2011, all of such options remained outstanding.

Except for Mr. Seth, no Director received compensation or any other benefits from the registrant during the last completed fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2011, the Company had two equity incentive plans under which equity securities were authorized for issuance to the Company's directors, officers, employees and other persons who performed substantial services for or on behalf of the Company. The "1995 Stock Option Plan", which expired in May 2005, remains only to the extent necessary to govern outstanding options issued under the Plan. At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved the "2006 Stock Incentive Plan", which authorizes granting up to 5,000,000 options for up to 5,000,000 shares of the Company's Common Stock.

The following table provides certain information relating to the 1995 Stock Option Plan and the 2006 Stock Incentive Plan as of December 31, 2011:

	(a)	**(b)**	**(c)**
Plan Category	**Number of securities to be issued upon exercise of outstanding options and rights**	**Weighted-average exercise price of outstanding options and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)**
Equity compensation plans approved by security holders	1,245,000	$0.142	3,955,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
TOTAL	1,245,000		3,955,000

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our Common Stock as of March 21, 2012 for:

* each person who is known to own beneficially more than 5% of our outstanding Common Stock;

* each of our executive officers and directors; and

* all executive officers and directors as a group.

The percentage of beneficial ownership for the following table is based on 85,564,235 shares of Common Stock outstanding as of March 21, 2012.

Unless otherwise indicated below, to the Company's knowledge, all persons and entities listed below have sole voting and investment power over their shares of Common Stock.

Name and address of beneficial owner	**Amount and nature of beneficial ownership**	**Percent of class (1)**
Albert E. Whitehead Chairman of the Board and Chief Executive Officer 3214 E. 73rd Street Tulsa, OK 74136-5927	21,113,661 shares (2)	24.68%

John C. Kinard Director 52 S. Roslyn Street Denver, CO 80230	781,331 shares (3)	0.91%
Montague H. Hackett, Jr. Director 550 Park Avenue New York, NY 10065	14,759,416 shares (4)	17.17%
Kevin R. Seth Director c/o Edgewood Management LLC 350 Park Avenue New York, NY 10022	761,111 shares (5)	0.89%
George H. Plewes P. O. Box HM 1431 Hamilton HMFX Bermuda	5,160,238 (6)	6.03%
All current directors and executive officers as a group (4 persons)	37,470,519 shares (7)	43.21%

(1) The percentage ownership for each person is calculated in accordance with the rules of the SEC, which provide that any shares a person is deemed to beneficially own by virtue of having a right to acquire shares upon the conversion of options or other rights are considered outstanding solely for purposes of calculating such person's percentage ownership.

(2) This number includes: (i) 18,268,378 shares directly owned by the Albert E. Whitehead Living Trust, of which Mr. Whitehead is the trustee; (ii) 30,000 shares owned by Mr. Whitehead's grandchildren for which he acts as custodian; and (iii) 2,815,283 shares directly owned by the Lacy E. Whitehead Living Trust, of which Ms. Whitehead, Mr. Whitehead's wife, is trustee. Mr. Whitehead disclaims any interest in the shares owned by the Lacy E. Whitehead Living Trust and the shares owned by his grandchildren.

(3) This number includes: (i) 161,331 shares directly owned by Mr. Kinard; (ii) 220,000 shares Mr. Kinard has the right to acquire pursuant to options granted to him under the 1995 Stock Option Plan; (iii) 250,000 shares Mr. Kinard has the right to acquire pursuant to options granted to him under the Company's 2006 Stock Incentive Plan; and (iv) 150,000 shares directly owned by Mr. Kinard's wife, of which Mr. Kinard disclaims any interest.

(4) This number includes (i) 9,600,288 shares directly owned by Mr. Hackett (ii) 400,000 shares Mr. Hackett has the right to acquire under the Company's 2006 Stock Incentive Plan; (iii) 2,206,350 shares directly owned by the Trust F/B/O Melinda Hackett of which Mr. Hackett disclaims any interest; (iv) 1,945,635 shares directly owned by the Trust F/B/O Montague H. Hackett, III of which Mr. Hackett disclaims any interest; and (v) 607,143 shares directly owned by Mayme M. Hackett, Mr. Hackett's wife, of which Mr. Hackett disclaims any interest.

(5) This number includes (i) 253,968 shares directly owned by Mr. Seth; (ii) 150,000 shares Mr. Seth has the right to acquire under the Company’s 2006 Stock Incentive Plan; and (iii) 357,143 shares held by Edgewood Management LLC Retirement plan F/B/O Kevin R. Seth.

(6) This number includes 5,160,238 shares directly owned by Mr. Plewes.

(7) This number is based on the numbers listed in footnotes 2 through 5 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Messrs. Whitehead and Hackett participated in the Company's 2009-2010 private placements on the same terms and conditions as the other investors in the private placement. For more information regarding such private placements, see "Private Equity Placements" under Item 7 of this Form 10-K.

In 2011, Mr. Whitehead advanced $100,000 to the Company through a Convertible Note from the Company. For more information regarding the Convertible Note, see "Advance from Related Party" under Item 7 of this Form 10-K.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer for a purchase price of $0.05 per share, which resulted in a total investment of $100,000. For more information regarding such purchase see “Recent Sales of Unregistered Securities” under Item 5 of this Form 10-K.

In October 2010, Messrs. Whitehead and Hackett participated in the sale of working interests by the Company on the same terms and conditions as the other purchasers of the working interest. For more information regarding such transaction, see "Sale of Working Interest" under Item 7 of this From 10-K.

DIRECTOR INDEPENDENCE

The Company has determined that Mr. Kinard, Mr. Hackett and Mr. Seth are "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards. Because of the small size of the Company's Board of Directors, the Company has not established any committees. Rather, the entire Board acts as, and performs the same functions as, the audit committee, compensation committee and nominating committee. Mr. Whitehead is not considered "independent" within the meaning of Rule 4200(a)(15) of the NASDAQ listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The following is a summary of the fees billed or to be billed to the Company by HoganTaylor LLP, the Company's independent registered public accounting firm, for professional services rendered for the fiscal years ended December 31, 2011 and December 31, 2010:

Fee Category	**Fiscal 2011 Fees**	**Fiscal 2010 Fees**
Audit Fees (1)	$36,250	$35,000
Audit - Related Fees (2)	0	0
Tax Fees	0	0
All Other Fees (3)	0	0

Total Fees	$36,250	$35,000

(1) Audit Fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2011 and December 31, 2010, respectively.

(2) Audit-Related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees."

(3) All Other Fees consist of aggregate fees billed for products and services provided by HoganTaylor LLP, other than those disclosed above.

The entire Board of Directors of the Company is responsible for the appointment, compensation and oversight of the work of the independent registered public accounting firm and approves in advance any services to be performed by the independent registered public accounting firm, whether audit-related or not. The entire Board of Directors reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent registered public accounting firm. All of the fees shown above were pre-approved by the entire Board of Directors.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements
The financial statements under this item are included in Item 8 of Part II.

(2) Schedules
NONE

(3) Exhibits

Exhibit NO.	Description
3.1	Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 of the Company's Form 10-QSB for the period ended September 30, 1995, which was filed November 6, 1995).
3.2	Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 of the Company's Form 10-QSB for the period ended March 31, 1998, which was filed May 15, 1998).
10.1	1995 Stock Option Plan (incorporated herein by reference to Appendix A of the Company's Form DEFS 14A dated June 13, 1995, which was filed June 14, 1995).
10.2	Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10(g) of the Company's Form 10-KSB for the year ended December 31, 1995, which was filed March 29, 1996).
10.3	Letter Agreement dated May 8, 2003 between the Company and O. F. Duffield (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-KSB for the year ended December 31, 2003, which was filed March 30, 2004).
10.4	2006 Stock Incentive Plan (incorporated herein by reference to Exhibit A to the Company's 2006 Proxy Statement on Schedule 14A dated May 10, 2006).
10.5	Form of Non-qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.6	Form of Non-qualified Stock Option Agreement for Non-employee Directors (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.7	Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.8	Form of Securities Purchase Agreement entered into between Empire Petroleum Corporation and certain accredited investors in connection with the 2009 private placement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended September 30, 2009, which was filed on November 16, 2009).
10.9	Form of securities purchase agreement entered into between Empire Petroleum Corporation and certain accredited Investors in connection with the June-July 2010 private Placement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
10.10	Form of common share warrant certificate issued by Empire Petroleum Corporation in favor of certain accredited investors in connection with the June-July 2010 private placement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
10.11	Convertible Note Due February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 1, 2011, which was filed on February 7, 2011).
10.12	Letter Agreement dated November 17, 2010 between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.14 to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2010, which was filed on September 30, 2011).
10.13	Designation of Agent (Agency Agreement), dated April 27, 2005, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).
10.14	Participation Agreement dated May 8, 2006 between the Company and Cortez Exploration, LLC (submitted herewith).
10.15	Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (submitted herewith).
10.16	Amendment, dated February 4, 2010, of Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).
10.17	Designation of Agent (Agency Agreement), dated June 10, 2010, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.19 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).

10.18	Prospect Letter Agreement dated October 4, 2010 between the Company and seven (7) investors to purchase a 1% interest in the Company's Gabbs Valley Prospect (submitted herewith).
31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a - 14 (a) and 15(d) - 14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(1) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
32	Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
101	Financial Statements for XBRL format (submitted herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Empire Petroleum Corporation

Date: March 21, 2012

By: /s/Albert E. Whitehead
Albert E. Whitehead
Chief Executive Officer
(principal executive officer, principal financial officer
and principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Albert E. Whitehead Albert E. Whitehead	Director, Chairman and Chief Executive Officer	March 21, 2012
/s/ John C. Kinard John C. Kinard	Director	March 21, 2012
/s/ Montague H. Hackett, Jr. Montague H. Hackett, Jr.	Director	March 21, 2012
/s/ Kevin R. Seth Kevin R. Seth	Director	March 21, 2012

EXHIBIT INDEX

NO.	
3.1	Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 of the Company's Form 10-QSB for the period ended September 30, 1995, which was filed November 6, 1995).
3.2	Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 of the Company's Form 10-QSB for the period ended March 31, 1998, which was filed May 15, 1998).
10.1	1995 Stock Option Plan (incorporated herein by reference to Appendix A of the Company's Form DEFS 14A dated June 13, 1995, which was filed June 14, 1995).
10.2	Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10(g) of the Company's Form 10-KSB for the year ended December 31, 1995, which was filed March 29, 1996).
10.3	Letter Agreement dated May 8, 2003 between the Company and O. F. Duffield (incorporated herein by reference to Exhibit 10.6 of the Company's Form 10-KSB for the year ended December 31, 2003, which was filed March 30, 2004).

10.4	2006 Stock Incentive Plan (incorporated herein by reference to Exhibit A to the Company's 2006 Proxy Statement on Schedule 14A dated May 10, 2006).
10.5	Form of Non-qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.6	Form of Non-qualified Stock Option Agreement for Non-employee Directors (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.7	Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K dated June 5, 2006, which was filed on June 9, 2006).
10.8	Form of Securities Purchase Agreement entered into between Empire Petroleum Corporation and certain accredited investors in connection with the 2009 private placement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended September 30, 2009, which was filed on November 16, 2009).
10.9	Form of securities purchase agreement entered into between Empire Petroleum Corporation and certain accredited Investors in connection with the June-July 2010 private Placement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
10.10	Form of common share warrant certificate issued by Empire Petroleum Corporation in favor of certain accredited investors in connection with the June-July 2010 private placement (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the period ended June 30, 2010, which was filed on August 13, 2010).
10.11	Convertible Note Due February 1, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 1, 2011, which was filed on February 7, 2011).
10.12	Letter Agreement dated November 17, 2010 between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.14 to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2010, which was filed on September 30, 2011).
10.13	Designation of Agent (Agency Agreement), dated April 27, 2005, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).
10.14	Participation Agreement dated May 8, 2006 between the Company and Cortez Exploration, LLC (submitted herewith).
10.15	Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (submitted herewith).
10.16	Amendment, dated February 4, 2010, of Option to Purchase Okie Draw and South Okie Prospects, Natrona County, Wyoming, dated August 4, 2009, between the Company and Viking Exploration, LLC (incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).
10.17	Designation of Agent (Agency Agreement), dated June 10, 2010, between the Company and Cortez Exploration, LLC (incorporated herein by reference to Exhibit 10.19 to the Company's Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2010, which was filed on December 14, 2011).
10.18	Prospect Letter Agreement dated October 4, 2010 between the Company and seven (7) investors to purchase a 1% interest in the Company's Gabbs Valley Prospect (submitted herewith).
31	Certification of Chief Executive Officer (and principal financial officer) pursuant to Rules 13a - 14 (a) and 15(d) - 14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(1) (31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
32	Certification of Chief Executive Officer (and principal financial officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (submitted herewith).
101	Financial Statements for XBRL format (submitted herewith).

EMPIRE PETROLEUM CORPORATION

FINANCIAL STATEMENTS

CONTENTS

REPORT OF INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Empire Petroleum Corporation

We have audited the accompanying balance sheets of Empire Petroleum Corporation as of December 31, 2011 and 2010, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to

obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Empire Petroleum Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred significant losses since inception. The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery and development of economically recoverable oil and gas reserves and the ability of the Company to obtain necessary financing to carry out its exploration and development program. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plan concerning this matter is also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We were not engaged to examine management's assertion about the effectiveness of Empire Petroleum Corporation's internal control over financial reporting as of December 31, 2011, included in the accompanying Management's Annual Report on Internal Controls and, accordingly, we do not express an opinion thereon.

/s/ HOGANTAYLOR LLP
Tulsa, Oklahoma
March 21, 2012

EMPIRE PETROLEUM CORPORATION

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,978	$ 68,689
Accounts receivable (net of allowance of $3,750)	7,195	45,915
Prepaid expenses and other current assets	1,100	7,336
Total current assets	13,273	121,940
Property & equipment less accumulated depreciation and depletion	255,215	255,215
Other assets	58,442	0
Total assets	$ 326,930	$ 377,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 11,487	$ 149,065
Notes payable – related party	100,000	0
Total current liabilities	111,487	149,065
Stockholders' equity:		
Common stock - $.001 par value 100,000,000 shares authorized, 85,564,235 and 83,069,235 shares issued and outstanding respectively	85,564	83,069
Additional paid in capital	14,136,432	13,904,142
Accumulated deficit	(14,006,553)	(13,759,121)
Total stockholders' equity	215,443	228,090

Total liabilities and stockholders' equity	$ 326,930	$ 377,155

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF OPERATIONS

Years Ended December 31, 2011 and 2010

	2011	2010
Revenue:		
Petroleum Sales	$ 0	$ 0
Costs and expenses:		
Well abandonment expense	0	2,221,293
Production & operating	22,060	178,174
General & administrative	222,133	231,996
	244,193	2,631,463
Operating loss	(244,193)	(2,631,463)
Other income and (expense):		
Interest income	11	3,561
Interest expense	(3,250)	0
Total other income and (expense)	(3,239)	3,561
Net income (loss)	$ (247,432)	$ (2,627,902)
Net income (loss) per common share, basic and diluted	$ (0.00)	$ (0.03)
Weighted average number of common shares outstanding basic and diluted	84,163,193	80,487,318

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2011 and 2010

	Shares	Par Value	Additional Paid in Capital	Accumulated Deficit	Total
Balances December 31, 2009	74,553,361	$ 74,553	$ 13,149,578	$ (11,131,219)	$ 2,092,912
Net loss	0	0	0	(2,627,902)	(2,627,902)
Value of services contributed by employee	0	0	50,000	0	50,000
Issuance of Stock Options	0	0	28,080	0	28,080
Issuance of Common Stock	8,515,874	8,516	676,484	0	685,000
Balances December 31, 2010	83,069,235	83,069	13,904,142	(13,759,121)	228,090
Net loss	0	0	0	(247,432)	(247,432)
Value of services contributed by employee	0	0	50,000	0	50,000
Issuance of Stock Options	0	0	11,295	0	11,295
Issuance of Common Stock	2,495,000	2,495	170,995	0	173,490
Balances December 31, 2011	85,564,235	$ 5,564	$ 4,136,432	$ (14,006,553)	$ 215,443

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net loss	$ (247,432)	$ (2,627,902)
Adjustments to reconcile net loss to net cash used in operating activities:		
Value of services contributed by employee	50,000	50,000
Stock option plan expense	11,295	28,080
Well abandonment expense	0	2,221,293
Change in operating assets and liabilities:		
Accounts receivable and other assets	(19,722)	0
Prepaid expenses	6,236	(7,336)
Accounts payable and accrued liabilities	(64,088)	138,482
Net cash used in operating activities	(263,711)	(197,383)
Cash flow from investing activities:		
Sale of working interest	0	700,000
Acquisition of lease acres	0	(35,000)
Well equipment and drilling costs	0	(2,255,493)
Net cash provided by (used in) investing activities	0	(1,590,493)

Cash flows from financing activities:		
Proceeds from private equity placement	100,000	685,000
Proceeds from related party, note payable	100,000	0
Net cash provided by Financing Activities	200,000	685,000
Net increase (decrease) in cash	(63,711)	(1,102,876)
Cash - Beginning of period	68,689	1,171,565
Cash - End of period	$ 4,978	$ 68,689
Supplemental Disclosure of Non Cash Items:		
Common Stock issued for accounts payable	$ 73,490	$ 0

See accompanying notes to financial statements

EMPIRE PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 and 2010

General:

On July 20, 2001, Americomm Resources Corporation merged with its wholly-owned subsidiary, Empire Petroleum Corporation, and simultaneously changed the name of the corporation to Empire Petroleum Corporation (the "Company"). Both the merger and name change were effective as of August 15, 2001. Americomm Resources Corporation was originally incorporated in the State of Utah on the 22nd day of August 1983, as Chambers Energy Corporation. On the 7th day of March 1985, the state of incorporation was changed to Delaware by means of a merger with Americomm Corporation, a Delaware corporation formed for the purpose of effecting the said change. In July 1995, the Company changed its name to Americomm Resources Corporation.

1. Continuing operations:

The ultimate recoverability of the Company's investment in its oil and gas interests is dependent upon the existence and discovery of economically recoverable oil and gas reserves, the ability of the Company to obtain necessary financing to further develop the interests, and upon the ability to attain future profitable production. The Company has been incurring significant losses in recent years.

Virtually all of the Company's assets are invested in the Gabbs Valley and South Okie Prospects, both of which are unproven, that is, they have not been evaluated as being capable of producing economical quantities of reserves. The Company acquired additional leasehold interests in and drilled a test well on its Gabbs Valley Prospect in 2006. Completion of the test well was suspended pending evaluation of the geologic information and the securing of additional capital to continue the evaluation and possibly to complete the well. The Company drilled a test well on the Prospect in 2010 which recovered oil, however the oil contained paraffin which prevented it from producing at economic rates. The Company continues to believe that the Prospect contains economical reserve quantities and is actively conducting additional studies and will be pursuing potential funding and/or partners to continue evaluation and exploration.

The Company plans to supplement current studies of the South Okie Prospect with a seismograph evaluation to verify the potential of the prospect. The Company has acquired 11 miles of seismic and studies of this data were completed in early January 2010 and an additional geological study was also completed in early January 2010.

The continuation of the Company is dependent upon the ability of the Company to attain future profitable operations. These financial statements have been prepared on the basis of United States generally accepted accounting principles applicable to a company with continuing operations, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations. Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

2. Significant accounting policies:

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(a) Capital assets:

The Company uses the successful efforts method of accounting for its oil and gas activities. Costs incurred are deferred until exploration and completion results are evaluated. At such time, costs of activities with economically recoverable reserves are capitalized as proven properties, and costs of unsuccessful or uneconomical activities are expensed.

Capitalized drilling costs are reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to expense. Management's assessment of the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such leaseholds impact the amount and timing of impairment provisions. An impairment expense could result if oil and gas prices decline in the future as it may not be economical to develop some of these unproved properties.

(b) Per share amounts:

The Company calculates and discloses basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). The computation of basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of outstanding common shares during the period.

Diluted EPS gives effect to all dilutive potential common shares outstanding during the period. The computation of diluted EPS does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on losses. As a result, if there is a loss from continuing operations, Diluted EPS is computed in the same manner as Basic EPS is computed. At December 31, 2011 the Company had 1,245,000 options outstanding that were not included in the calculation of diluted earnings per share. Such financial instruments may become dilutive and would then need to be included in future calculations of Diluted EPS.

(c) Income taxes:

The Company accounts for income taxes in accordance with the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established if management determines it is more likely than not that some portion of a deferred tax asset will not be realized.

(d) Financial instruments:

The carrying value of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

(e) Stock option plan:

The Company expenses options granted over the vesting period based on the grant date fair value of the award.

(f) Obligations associated with the retirement of assets:

The Company follows Financial Accounting Standards Board ("FASB") guidance on accounting for asset retirement obligations, which among other matters, addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This guidance requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the related asset and allocated to expense over the asset's useful life. The Company applies its analysis to producing wells. The Company accrued $0 and $0, respectively at December 31, 2011 and 2010 as an asset retirement obligation for wells in Nevada, which was recorded as an expense since the well costs have been fully impaired.

(g) Recent Accounting Pronouncements:

The FASB periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that the following new accounting standards are applicable:

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income*. This Update amended the provisions of FASB ASC 220-10 by eliminating the option of reporting other comprehensive income in the statement of changes in stockholders' equity. Companies will have the option of presenting net income and other comprehensive income in a single, continuous statement of comprehensive income or presenting two separate but consecutive statements of net income and comprehensive income. The new presentation requirements are effective for interim and annual periods beginning after December 15, 2011. Therefore, this new presentation will first be reflected in the Company's March 31, 2012 consolidated financial statements.

3. Property and equipment:

In 2003, the Company acquired a 10% interest in the Gabbs Valley Prospect of Western Nevada by issuing 2,000,000 shares of Company stock. The Company has recorded its investment at $200,000. In 2005, the Company conducted a seismic survey of the Gabbs Valley Prospect. Based on the results of the seismic survey, during 2006, the Company entered into an agreement to increase its working interest in the prospect to 40% by paying $675,000 plus 55% of the drilling costs through completion. The Company contracted a drilling rig, which commenced drilling the Empire Cobble Cuesta 1-12-12N-34E, Nye County, Nevada in September 2006. After reaching a depth of 5,195 feet the Company ceased drilling operations, ran electronic logs, installed a wellhead, and conditioned the hole so that it might be re-entered or deepened at a later date. In April 2007, the Company re-entered the well and based on the results of drill stem tests, determined that the formation was very sensitive to the mud and water used in drilling the test well, causing clogs in the formation to swell which prevented any oil which might be present to flow into the well bore. The total gross acres of this prospect was increased to 92,826 acres by the acquisition of 30,917 acres from the U.S. Department of Interior in June 2006, at a cost of $36,689, the acquisition of 9,943.91 acres in September 2008, at a cost of $13,025 and the acquisition of 7,680 acres in September 2009, at a cost of $12,615. The Company increased its interest to 57% in the prospect leases in 2007 when one of the joint participants elected to surrender its 30% interest. The Company and the remaining joint owners assumed liabilities of approximately $68,000 to acquire the interest.

In 2010, the Company drilled a test well in the Paradise Unit of the Gabbs Valley Prospect to a depth of 4,250 feet. The well produced small amounts of oil containing paraffin which may have restricted oil flow. A co-owner of the lease elected to take over the lease and well, including remediation of the site, as of December 31, 2010 the Company had expensed $2,255,493 of intangible drilling costs related to the Paradise Unit test well. Also in 2010, the Company sold a 7% working interest in the Gabbs Valley Prospect for $700,000. In December 2011, the Company acquired leases on 3,840 acres of undeveloped land in Nye County, Nevada, which are a part of the Gabbs Valley Prospect. As of December 31, 2011, the Gabbs Valley Prospect consisted of approximately 34,186 gross acres of federal leases located in Nye County, Nevada, of which the Company owns a 50% working interest in 30,346 gross acres and an 88.5% in 3,840 gross acres.

The Company's other property and equipment, totaling $2,561 at December 31, 2011, consists entirely of office furniture, fixtures and equipment, which are fully depreciated.

4. Capital Stock:

In 2005, the Company raised $500,000 of net proceeds by selling 5,000,000 shares of newly issued common stock along with warrants to purchase 1,250,000 shares of common stock which, subject to certain restrictions, could have been exercised for a period of one year at an exercise price of $0.25. Proceeds of the original placement were allocated $67,875 to common stock warrants and $432,125 to common stock and paid in capital. In 2006, the warrants were extended twice; the extensions reduced the value of the warrants to $18,250. The value assigned to the warrants was determined using the Black-Scholes option valuation method with the following assumptions: no dividend yield, expected volatility of 154%, risk free interest rate of 3.28% and expected life of one year. Assumptions used for the extensions were: no dividend yield, expected volatility of 153%, risk free interest rate of 4.86% and expected life of 6 months. The warrants expired on November 15, 2010 with none being exercised.

In 2006, the Company raised $1,450,000 of net proceeds by selling 7,250,000 shares of newly issued stock along with warrants to purchase 1,812,500 shares of common stock, which, subject to certain restrictions, could have been exercised on or before March 15, 2009 subsequently extended to November 15, 2010 at an exercise price of $0.50. Proceeds of the placement were allocated $144,675 to common stock warrants and $1,305,325 to common stock and paid in capital. The value assigned to the warrants was determined using the Black-Scholes option valuation method with the following assumptions: no dividend yield, expected volatility of 148% risk-free interest rate of 5.09% and an expected life of one year. The warrants expired November 15, 2010 with none being exercised.

In 2007, the Company raised $1,000,000 of net proceeds by selling 5,000,000 shares of newly issued stock, along with warrants to purchase 1,250,000 shares of common stock, which subject to certain restrictions, could have been exercised until March 15, 2009 (subsequently extended to November 15, 2010 at an exercise price of $0.50 per share. Proceeds of the placement were allocated $80,000 to common stock warrants and $920,000 to common stock and paid in capital. The value assigned to the warrants was determined by using the Black-Scholes option valuation methods with the following assumptions: no dividend yield, expected volatility of 136%, risk free interest rate of 4.94%, and an expected useful life of one year. The warrants expired November 15, 2010 with none being exercised.

In 2009, the Company raised $1,215,216 of net proceeds by selling 17,360,233 shares of newly issued common stock. Proceeds were utilized for the Company's share of costs to drill a new well on the Gabbs Valley Prospect (See Note 1).

In 2010, the Company raised $685,000 of net proceeds by selling 8,515,874 shares of newly issued stock, along with warrants to purchase 2,222,226 shares of Common Stock which, subject to certain restrictions, could have been exercised until June 16, 2011 at an exercise price of $0.50 per share. Proceeds of the placements were allocated $101,250 to Common Stock Warrants and $583,750 to Common Stock and paid in capital. The value assigned to the warrants was determined by using the Black-Scholes option valuation methods with the following assumptions: no dividend yield, expected volatility of 155%, risk free interest rate of .3% and an expected useful life of one year. The warrants expired in 2011 with none being exercised.

In August 2011, the Company issued 2,000,000 shares of its common stock to Albert E. Whitehead, its Chief Executive Officer, for a purchase price of $0.05 per share, which resulted in a total investment of $100,000.

5. Stock options:

Under a stock option plan adopted in 1995, the Company had the discretion to grant options for up to 1,600,000 shares of common stock until May 15, 2005, at which time the plan terminated

except to the extent necessary to govern outstanding options. Stock options granted under the plan vest on grant date and expire ten years from the date of grant plus 30 days. The exercise price of the options is the fair market value on the date of grant.

At the Company's 2006 Annual Meeting of Stockholders, the stockholders approved the 2006 Stock Incentive Plan (the "Plan"). The Plan permits the issuance of stock options, restricted stock awards, and performance shares to employees, officers, directors, and consultants of the Company. Initially, and until such time as the Board creates a Compensation Committee, the Board of Directors will administer the Plan. The total number of shares of common stock that may be issued pursuant to awards under the Plan is 5,000,000. Under the Plan, no participant may receive awards of stock options that cover in the aggregate more than 500,000 shares of common stock in any fiscal year. Unless terminated by the Board, or upon the granting of awards covering all of the shares subject to the Plan, the Plan shall terminate on June 5, 2016.

The Company expenses the cost of options granted over the vesting period of the option based on the grant-date fair value of the award. No options were granted in 2009. For the year ended December 31, 2011 and 2010, the Company recognized an expense of $11,295 and $28,080, respectively, related to options granted under the Plan.

Fair values were estimated at the date of grants of the options, using the Black-Scholes option valuation model with the following weighted average assumptions: risk-free interest rate of 3.65% and 2.77%, volatility factor of the expected market price of the Company's common stock of 172% and 142%, no dividend yield on the Company's common stock, and a weighted average expected
life of the options of 5 years. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. For purposes of determining the expected life of the options, the Company utilizes the Simplified Method as defined in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission.

In addition options valuation models require the input of highly subjective assumptions including stock price volatility.

As of December 31, 2011, there was no unrecognized compensation expense related to nonvested share-based compensation arrangements under the Plan.

A summary of the Company's Incentive Plan as of December 31, 2011 and changes during the year is presented below:

	Options	**Weighted Average Exercise Price**
Outstanding at Beginning of Year 2010	1,070,000	$0.162
Granted	120,000	$0.25
Cancelled or Exercised	95,000	$0.44
Outstanding at End of Year 2010	1,095,000	$0.148
Granted	150,000	$0.10
Cancelled or Exercised	0	$0.00
Outstanding at End of Year 2011	1,245,000	$0.142

The following table summarizes information about stock options outstanding at December 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/11	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/11	Weighted Average Exercise Price
$0.10 - $0.26	1,245,000	5.86 Years	$0.142	1,245,000	$0.142

6. Income taxes:

The provision for income taxes differs from the amount obtained by applying the Federal income tax rate of 34% to income before income taxes. The difference relates to the following items:

	2011	2010
Statutory tax rate	34%	34%
Expected tax benefit	$ (85,000)	$ (890,000)
Benefit of losses not recognized	85,000	890,000
Tax provision (benefit) as reported	$0	$0

The components of deferred income taxes at December 31, 2011 are as follows:

	2011	2010
Deferred tax assets:		
Loss carry-forwards	$2,300,000	$2,650,000
Valuation allowance	(2,015,000)	(2,125,000)
	285,000	$ 525,000

Deferred tax liabilities:

Property and equipment	285,000	525,000
Net deferred taxes	$0	$0

At December 31, 2011, the Company had net operating loss carryforwards of approximately $7,850,000 which expire beginning in 2012.

Utilization of the Company's loss carryforwards is dependent on realizing taxable income. Deferred tax assets for these carryforwards have been reduced by a valuation allowance up to an amount equal to estimated deferred tax liability.

The Company is no longer subject to income tax examinations by tax authorities for years before 2007. The Company is not currently the subject of any income tax examinations by any tax authorities.

Based upon a review of its income tax filing positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. The Company recognizes interest related to income taxes as interest expense and penalties as operating expenses.

7. Oil Sale Revenue:

The Company currently records revenue from petroleum sales when received from the operator of the well. Oil Sale Revenue is reported net of working interest and overriding royalty amounts due. Prior to 2006, the Company was responsible for distributing allocable portions of oil sale revenue to working interest and royalty owners for production in the Cheyenne River Prospect. Accordingly, a liability for estimated royalty payments was recorded when oil sale proceeds were received since a division order had not been completed, certain amounts were credited to royalties payable until the division order issue was resolved.

8. Operating lease:

The Company leases office space under an operating lease agreement with an unrelated party which expires in June 2012. Monthly lease payments are $1,100.

Rent expense for each of the years ended December 31, 2011 and 2010 was $13,200 and $12,649, respectively.

9. Related Party Transactions:

On February 1, 2011 the Company and its Chief Executive Officer entered into an agreement where the Company received $100,000 in exchange for entering into a Convertible Note agreement. The note accrues interest at an annual rate of 4% and was originally set to mature on February 1, 2012. The note may be converted into Common Stock of the Company by the holder at a conversion price of $.10 per share. The maturity date of the Note has been extended to August 1, 2012.

10. Subsequent Events:

In January 2012, the Company’s Chief Executive Officer advanced $20,000 to the Company for general operating purposes.

EXHIBIT 10.14

May 8, 2006

Cortez Exploration, LLC
Mr. O. F. Duffield, Manager
16786 Kincheloe Rd.
Siloam Springs, AR 72761

RE: Participation Agreement,
Gabbs Valley Prospect,
Nye & Mineral Counties, Nevada

Dear Mr. Duffield:

This letter is to confirm Empire's decision to commit to forty-five (45%) percent of the cost of a 5,000' test well to be known as the PetroWorld Cobble Cuesta 1-12-T12N-R34E, Nye County. In return for paying forty-five (45%) percent of the cost of this test well Cortez will assign to Empire a thirty (30%) percent interest in the oil and gas leases listed on Schedule "A" attached to and made a part of this letter.

Empire also agrees to pay Cortez the Sum of Six Hundred and Seventy-Five Thousand ($675,000) dollars for its share of the lease costs. Such payment to be made prior to the commencement of drilling operations or by August 1, 2006, whichever first occurs.

Empire agrees that all drilling and production operations shall be carried out pursuant to the terms of the Cobble Cuesta (formerly Gabbs Valley Unit) Unit No. N-78845X and the Operating Agreement attached as Schedule "D" in the Cortez-PetroWorld Letter Agreement dated April 15, 2005, attached hereto as Schedule "B".

After the signing of this instrument and all obligations are met, the ownership of the Oil & Gas Leases will be PetroWorld 30%; Empire 40%; Cortez 30% subject to the A.M.I. and royalties set out in Schedule "A" of the agreement. Any lease rentals that might become due prior to PetroWorld's and Empire's earning an interest shall be paid by PetroWorld 30%, Empire 40%, and Cortez 30%.

This agreement inures to the heirs, administrators, successors, and beneficiaries.

If this letter meets with your understanding of our agreement please sign and return one copy to the undersigned.

Yours very truly,

A. E. Whitehead
President

Agreed to this 11TH day of May, 2006
Cortez Exploration, LLC

By: /s/ O. F. Duffield
O. F. Duffield, Manager

SCHEDULE "A"

OIL & GAS LEASES
GABBS VALLEY PROSPECT
NEVADA

Lease Serial #	Effective Date	Term	Lessor	Lessee	Assignee	Acres	N.R.I.
N-59901	9/1/1995	10 yr	BLM	James P. Duffield	O. F.Duffield	3,840.56	80%
N-60885	9/1/1995	10 yr	BLM	James P. Duffield	O. F. Duffield	6,388.16	80%
N-60812	6/1/1996	10 yr	BLM	James P.Duffield	O. F. Duffield	10,205.16	80%
N-60815	6/1/1996	10 yr	BLM	James P. Duffield	O. F. Duffield	960.00	80%
N-60816	6/1/1996	10yr	BLM	James P. Duffield	O. F. Duffield	6,080.00	80%
N-60793	6/1/1997	10 yr	BLM	John L. Messenger	O. F. Duffield	1,920.00	80%
N-60808	6/1/1997	10 yr	BLM	John L. Messenger	O. F. Duffield	2,553.43	80%
N-60807	6/1/1997	10 yr	BLM	John L. Messenger	O. F. Duffield	1,760.00	80%
N-60791	9/1/1996	10 yr	BLM	John L. Messenger	O. F. Duffield	3,200.00	80%
N-60806	6/1/1997	10 yr	BLM	John L. Messenger	O. F. Duffield	2,235.70	80%
N-60792	6/1/1996	10 yr	BLM	John L. Messenger	O. F. Duffield	5,461.37	80%
				TOTAL		**44,604.38**	

EXHIBIT "B"

UNIT OPERATING AGREEMENT
GABBS VALLEY UNIT AREA
COUNTIES OF MINERAL AND NYE
STATE OF NEVADA

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NOTE: Attention is called to pages 1, 6, 10, 11, 13, 14, 15, 16, and 19, which contain blanks to be filled in.

UNIT OPERATING AGREEMENT

GABBS VALLEY UNIT AREA

THIS AGREEMENT made as of the 5th day of August , 2010, by and among the parties who by and among the parties who execute or ratify this Agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE GABBS VALLEY UNIT AREA, Counties of Mineral and Nye State of Nevada , dated as of the 5th day of , 2010, and hereinafter referred to as the "Unit Agreement", covering the lands described in EXHIBIT B thereto attached, which lands are referred to in the Unit Agreement and in this Agreement as the "Unit Area"; and

WHEREAS, the Parties enter into this Agreement pursuant to Section 7 of the Unit Agreement,

NOW, THEREFORE, in consideration of the covenants herein contained, it is agreed as follows:

ARTICLE 1
DEFINITIONS

1.1 Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this Agreement:

"Unit Operator" means O. F. Duffield and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of a Committed Working Interest.

"Party" means a party to this Agreement, including the Party acting as Unit Operator when acting as an owner of a Committed Working Interest.

"Drilling Party", "Completing Party", and "Participating Party" all mean the Party or Parties obligated to bear Costs incurred in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well at the commencement of such operation.

"Non-Drilling Party", "Non-Completing Party", and "Non-Participating Party" all mean the Party or Parties who had the optional right to participate in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well and who elected not to participate therein.

"Committed Working Interest" means a working interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this Agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

"Acreage Basis", when used to describe the basis of participation by the Parties within the Unit Area, a participating area. or other area designated pursuant to this Agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the Committed Working Interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided Committed Working Interests in a tract, there shall be apportioned to each such Committed Working Interest that proportion of the acreage of the tract that such Committed Working Interest bears to the entire Committed Working Interest in the tract.

"Production" means all unitized substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this Agreement.

"Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this Agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the Accounting Procedure attached hereto as Exhibit 1, which shall govern in all matters covered thereby, except that in the event of an inconsistency between said Accounting Procedure and this Agreement, this Agreement shall control.

"Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment, and any similar burden, but does not include a carried working interest, a net profits interest, or any other interest which is payable out of profits.

"Drill" means to perform all operations reasonably necessary and incident to the drilling of a well to its projected depth, including preparation of roads and drill site, testing, and logging, but excluding Completion operations.

"Complete" means to perform all operations reasonably necessary and incident to the completion of a well, commencing with the running and setting of the production pipe and, if productive of unitized substances, equipping through the wellhead connections, or plugging and abandoning, if dry.

"Equip" means to perform all operations reasonably necessary and incident to the equipping of a well for production beyond the wellhead connections.

"Deepen" or "Plug Back" means to perform all operations reasonably necessary and incident to Drilling a well below its original projected depth or plugging back a well to a depth above its original projected depth, testing, and logging, but excluding Completing and Equipping operations.

"Initial Test Well" means the test well or wells provided for in Section 9 of the Unit Agreement and in Exhibit 2 attached hereto.

"Subsequent Test Well" means a test well Drilled after the Drilling of the Initial Test Well and before discovery of unitized substances in Paying Quantities in the Unit Area.

"Development Well" means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

“Exploratory Well" means a well (other than a Development Well) Drilled after discovery of unitized substances in Paying Quantities in the Unit Area.

"Approval of the Parties" or "Direction of the Parties" means an approval, authorization, or direction which receives the affirmative vote of the Parties entitled to vote on the giving of such Approval or Direction, as specified in Section 14.2.

"Salvage Value" of a well means the value of the materials and equipment in or appurtenant to the well, determined in accordance with Exhibit 1, less the reasonably estimated Costs of salvaging the same and plugging and abandoning the well.

"Appropriate Agency" means the agency designated in the applicable Federal Regulations, including any person acting under the authority thereof.

"Paying Quantities" means paying quantities as defined in Section 9 of the Unit Agreement.

Other Definitions:

ARTICLE 2
EXHIBITS

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

Exhibit 1. Accounting Procedure.
Exhibit 2. Initial Test Well.
Exhibit 3. Insurance.
Exhibit 4. Non-Discrimination.
Exhibit 5. Oil and Gas Lease.

In the event of a conflict or inconsistency between the provisions of an Exhibit and the provisions of this Agreement, the provisions of this Agreement shall control.

ARTICLE 3
INITIAL TEST WELL

3.1 Location. Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement, or any extension thereof, at the location specified in Exhibit 2.

3.2 Costs of Drilling. Subject to the investment adjustment provisions of Article 13, the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in Exhibit 2.

ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be upon such terms and conditions as may be agreed to by the Parties; provided, however, that in the absence of agreement, such well may be Drilled under the provisions of Article 9.

ARTICLE 5
ESTABLISHMENT, REVISION, AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least twenty (20) days before filing the same with the Appropriate Agency. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Appropriate Agency.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60)

days from submission of the first proposal, then Unit Operator shall file with the Appropriate Agency a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 Rejection of Proposal. If a proposal filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6
APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Articles 8, 9, 11, and 12:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of unitized substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis, determined as of the time such Costs are incurred.

B. Production. All Production from a participating area shall be allocated on an Acreage Basis to the tracts of unitized land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon and as if this Agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment, and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area, shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 Ownership and Costs Outside Participating Area. If a well Drilled (including the Deepening or Plugging Back thereof) within a Drilling Block established under the provisions of either Article 9 or Article 10 is completed as a producer but not included within a participating area, then the following provisions shall be applicable:

A. When All Drilling Block Parties Participate. If all Parties within the Drilling Block shall have elected to participate in Drilling and Completing such well, then said well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by such Parties; and all Costs incurred in the operation of such well and all Lease Burdens payable in respect of Production from such well shall be borne and paid by said Parties. Apportionment among said Parties of ownership, Costs, and Lease Burdens shall be in the same proportions in which Costs incurred in Drilling the well were borne.

B. When Less Than All Drilling Block Parties Participate. If any Party within the Drilling Block shall have elected not to participate in Drilling or Completing such well, then the provisions of Article 12 shall be applicable thereto; and the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.4 with respect to a well which results in the establishment or enlargement of a participating area, except that the proceeds or market value to be used in determining when such reversion shall occur shall be the proceeds or market value (after making the deductions provided for in Section 12.4) of that portion of the Production obtained from the well which, had the Non-Drilling Party elected to participate in the Drilling or Completing thereof, would have been allocable, on an Acreage Basis within the Drilling Block, to the Non-Drilling Party. Upon reversion of the relinquished interest of the Non-Drilling Party in such well, the provisions of Section 12.5 shall become applicable.

6.3 Cost Liability of Subsequently Created Interests. Anything herein to the contrary not withstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this Section 6.3 and of Section 12.9. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed Working Interest; and Unit Operator shall have the right to enforce against such Subsequently Created Interest the lien and all other rights granted in Section 15.5 for the purpose of collecting Costs chargeable to the Subsequently Created Interest.

6.4 Taking in Kind. Each Party shall currently, as produced, take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5, each Party shall be entitled to receive directly all proceeds from the sale of its share of Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

6.5 Failure to Take in Kind. Should any Party fail to take in kind or separately dispose of its share of Production, the Party acting as Unit Operator shall have the right, revocable at will by the Party owning such share, to purchase such share for its own account at not less than the market price

receives for its own share of Production; provided that all such sales shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but not to exceed one (1) year. Notwithstanding the foregoing, Unit Operator shall not sell or commit any Party's share of gas Production to a sale without first giving such Party not less than ninety (90) days written notice.

6.6 Surplus Materials and Equipment. Materials and equipment owned by the Parties or by any of them pursuant to this Agreement may be classified as surplus by Unit Operator when deemed bv it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by notice given to Unit Operator within thirty *(30)* days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars ($7,500.00).

B. Surplus materials and equip P1ent not divided in kind, other than junk and any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars ($7,500.00), shall be sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this Section shall be disposed of as provided in Exhibit 1.

ARTICLE 7
PLANS OF DEVELOPMENT

7.1 Submittal of Plans. Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the Appropriate Agency in accordance with the Unit Agreement and the further provisions of this Article.

7.2 Proposal. Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at least thirty (30) days before filing the same with the Appropriate Agency. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

7.3 Objections to Plan. Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the Appropriate Agency.

7.4 Revised Plan. If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the Appropriate Agency a plan reflecting as nearly as practicable the various views expressed by the Parties.

7.5 Rejection of Plan. If a plan filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new plan in the same manner as provided in Section. 7.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

7.6 Notice of Approval or Disapproval. If and when a plan has been approved or disapproved by the Appropriate Agency, Unit Operator shall give prompt notice thereof to each Party.

7.7 Supplemental Plans. If any Party or Parties shall have elected to proceed with a ·Drilling, Deepening, or Plugging Back operation in accordance with the provisions of this Agreement, and such operation is not provided for in the then current plan of development approved by the Appropriate Agency, Unit Operator shall either (a) submit to the Appropriate Agency for approval a supplemental plan providing for the conduct of such operation or (b) request the Appropriate Agency to consent to such operation, if such consent is sufficient.

7.8 Cessation of Operations Under the Plan. If any plan approved by the Appropriate Agency provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the Appropriate Agency.

ARTICLE 8
DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling and Completing a Development Well.

8.2 Drilling. The Drilling of a Development Well shall be pursuant to the procedure herein set forth.

A. Approval Required. The Drilling of a Development Well shall be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of a Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof but shall mean only that such Party

considers the Drilling of the well to be consistent with the efficient and economic development of the participating area involved and has no objection to the Drilling thereof.

B. Notice of Proposed Drilling. Subject to the provisions of Subdivision A of this Section 8.2, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area notice, specifying the location, depth, and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern then existing or an approved exception thereto.

C. Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 30-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within such participating area advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

D. Notice of Election to Proceed. Unless all Parties within the participating area agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 30-day period specified in Subdivision C of this Section 8.2, each Party within the participating area then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

E. Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who had not previously elected to participate therein may do so by notice given to Unit Operator at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

F. Effect of Election. If one or more, but not all, of the Parties within the participating area elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among them selves, or on such other basis as said Parties may specify.

G. Rights and Obligations of Drilling Party and Non-Drilling Party. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 shall be applicable to such operation.

8.3 Attempted Completion. The attempted Completion of Development Wells Drilled to their projected depths shall be governed by the following provisions:

A. Notice by Unit Operator. After a Development Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

B. Right to Attempt Completion. Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 8.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

D. Election. If a proposal to Complete is initiated, each Drilling Party shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

E. Effect of Election. The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

F. Rights and Obligations of Completing Party and Non-Completing Party. Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

G. Notice Prior to Plugging. Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

ARTICLE 9
EXPLORATORY WELLS

9.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling and Completing an Exploratory Well.

9.2 Drilling. The Drilling of an Exploratory Well shall be pursuant to the procedure herein set forth.

A. Notice of Proposed Drilling. Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling

Block, not to exceed 960 acres, which, on the basis of available geological information, will, in its judgment, be proved productive by the Drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with notice of the location, objective formation, estimated depth, and estimated cost of the proposed well. The location of the proposed we II shall conform to any applicable spacing pattern then existing or an approved exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be Drilled thereon nor any land included in a proposal therefor filed with the Appropriate Agency nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and, if the actual Drilling of a well is commenced thereon within such period, until either:

(1) the Completion of the well, if it is completed otherwise than as a producer of unitized substances in Paying Quantities, either at its original projected depth or, if Deepening or Plugging Back operations are conducted, at any other projected depth; or

(2) the filing with the Appropriate Agency of a proposal for the establishment or revision of a participating area if the Completion of the well results in the filing of such proposal.

B. Basis of Participation. Each Party within the Drilling Block shall be entitled to participate in the Costs of Drilling the proposed well on an Acreage Basis but shall be required to do so only if it notifies the other Parties within the Drilling Block of its willingness so to participate, as hereinafter in this Article 9 provided.

C. Exclusion of Land From Proposed Drilling Block. Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block, as reduced by the exclusion of such land, shall be established as the Drilling Block. In the absence of any such Direction, then, at the expiration of said 30-day period, the proposed Drilling Block shall be established as the Drilling Block.

D. Preliminary Notice to Join in Drilling. Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 10-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within the Drilling Block advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

E. Notice of Election to Proceed. Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 10-day period specified in Subdivision D of this Section 9.2, each Party within the Drilling Block then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

F. Subsequent Election. If election to Drill the proposed well is made, any Party within the Drilling Block who had not previously elected to participate therein may do so by notice given to all other Parties within the Drilling Block at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

G. Effect of Election. If one or more, but not all, of the Parties within the Drilling Block elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

H. Rights and Obligations of Drilling Party and Non-Drilling Party. Whenever an Exploratory Well is Drilled otherwise than for the account of all Parties within the Drilling Block involved, the provisions of Article 12 shall be applicable to such operation.

9.3 Attempted Completion. The attempted Completion of Exploratory Wells Drilled to their projected depths shall be governed by the following provisions:

A. Notice by Unit Operator. After an Exploratory Well has reached its projected depth and has been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

B. Right to Attempt Completion. Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 9.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

D. Election. If a proposal to Complete is initiated, each Party entitled to participate in the Completion attempt shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

E. Effect of Election. The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

F. Rights and Obligations of Completing Party and Non-Completing Party. Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

G. Notice Prior to Plugging. Before plugging and abandoning any Exploratory Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

ARTICLE 10
REQUIRED WELLS

10.1 Definition. For the purpose of this Article, a well shall be deemed a Required Well if the Drilling thereof is required by a final order of the Appropriate Agency. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each Party. If any such order is appealed, the Party appealing shall give prompt notice thereof to Unit Operator and to each of the other Parties, and, upon final disposition of the appeal, Unit Operator shall give each Party prompt notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or to participate in the Drilling of, a Required Well shall give to Unit Operator notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with such order. If such notice is given within said period, Unit Operator shall Drill the

Required Well for the account of the Party or Parties giving such notice; provided, however, if the Required Well is a Development Well, it shall not be Drilled unless it receives the Approval of the Parties within the participating area involved. All rights and obligations with respect to the ownership of such well, the operating rights therein, the Production therefrom, and the bearing of Costs incurred therein shall be the same as if the well had been Drilled under Article 8, if the same is a Development Well, or under Article 9, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a Required Well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make a reasonable effort to effect such contraction; or

C. Termination. If the Required Well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the Required Well under whichever of the following provisions is applicable:

A. Development Well. If the Required Well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. Exploratory Well. If the Required Well is an Exploratory Well, the Drilling Block for such well shall consist of all forty (40) acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within any participating area theretofore

established for the pool or zone to which the well is to be Drilled. Unit Operator shall Drill such well for the account of all the Parties owning Committed Working Interests within the Drilling Block, on an Acreage Basis among themselves; and no such Party shall have the right to elect not to participate in the Drilling of said well.

ARTICLE 11
DEEPENING, PLUGGING BACK, AND ABANDONMENT

11.1 Attempted Deepening or Plugging Back. The attempted Deepening or Plugging Back of wells not completed as producers of unitized substances at their original projected depths shall be governed by the following provisions of this Section 11.1 and by the provisions of Section 11.2, unless every Party entitled to the notice provided for in Subdivision A of this Section 11.1 has consented to the plugging and abandonment of such well:

A. Notice by Unit Operator. Before abandoning any well which has been Drilled to its original projected depth but not completed as a producer of unitized substances, Unit Operator shall give notice of its intention to plug and abandon such well to each Drilling Party and Non-Drilling Party.

B. Right to Initiate Proposal. Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A of this Section 11.1 and any other Party owning a Committed Working Interest in the tract of land on which the well is located may initiate a proposal to attempt to Deepen or Plug Back such well; provided, however, if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located.

C. Right to Participate. In order to be entitled to participate in a Deepening or Plugging Back operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling Block theretofore established for Drilling the well involved; if no Drilling Block was theretofore established for Drilling such well, the Drilling Block for such Deepening or Plugging Back operation shall be established automatically in accordance with the provisions of Subdivision B of Section 10.4, which shall be applicable hereto.

D. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 11.1 shall be allowed within which a Party entitled to do so may initiate a proposal to Deepen or Plug Back. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation. If no such proposal is initiated within said period, Unit Operator shall plug and abandon the well for the account of the Completing Party if a Completion attempt was made or, if not, then for the account of the Drilling Party.

E. Election. If a proposal to Deepen or Plug Back a well is initiated, each Party entitled to participate in the operation proposed shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the proposed operation.

F. Effect of Election. The Party or Parties electing to participate in an operation to Deepen or Plug Back a well as above provided shall constitute the Participating Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Participating Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Participating Party, on an Acreage Basis among themselves, subject, however, to the provisions of Section 11.2 and Section 11.3. If the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging and abandoning the well shall be charged and borne as part of the Costs incurred in Drilling the well.

G. Rights and Obligations of Participating Party and Non-Participating Party. Upon the commencement of a Deepening or Plugging Back operation otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 shall be applicable to such operation.

11.2 Deepening or Plugging Back to Participating Area. If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to the pool or zone for which such participating area was established, such operation, including the Completion of such well, may be conducted only if it receives the Approval of the Parties within such participating area, and only upon such terms and conditions as may be specified in such Approval, and upon such further terms and conditions as may be agreed to by the Parties owning interests in the well immediately prior to the commencement of any such Deepening or Plugging Back operation.

11.3 Conflicts. If conflicting elections to attempt to Deepen or Plug Back are made in accordance with the provisions of this Article 11, preference shall be given first to Deepening. However, if a Deepening attempt does not result in completion of the well as a producer of unitized substances, Unit Operator shall again give notice in accordance with Subdivision A of Section 11.1 before plugging and abandoning the well.

11.4 Attempted Completion. Except as otherwise provided in Section 11.2, the attempted Completion of a well Deepened or Plugged Back to the depth projected for such Deepening or Plugging Back operation shall be governed by the provisions of Section 9.3, unless every Participating Party has

consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Participating Party.

11.5 Abandonment of Producing Wells. A well completed as a producer of unitized substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of Section 11.6. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such well shall not be abandoned for production from the pool or zone in which it is Completed, except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such well receives the Approval of the Parties who own the well but is not consented to by all such Parties, Unit Operator shall give notice thereof to each Party, if any, then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called Non-Abandoning Party) may give notice thereof to all other Parties (herein called Abandoning Parties) then having interests in the well, provided such no lice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the Non-Abandoning Party or Parties shall forthwith pay to the Abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the Abandoning Parties shall be deemed to have relinquished to the Non-Abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then Completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one Non-Abandoning Party, the interests so relinquished shall be owned by the Non-Abandoning Parties in the proportions which their respective interests in the well bear to the total of their interests therein immediately prior to such relinquishment.

C. Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the Non-Abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens, and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided) and also the Costs of any additional tankage, flow lines, or other facilities needed to measure separately the unitized substances produced from the well. Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 1, if such rate is provided.

D. Option to Repurchase Materials. If a well taken over by the Non-Abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the Abandoning Parties of their interests therein, each Abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well which is equal to the interest relinquished by it to the Non-Abandoning Party or Parties, at the value previously fixed therefor. Said option may be exercised only by notice given to Unit Operator and to the Non-Abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to Section 11.6.

11.6 Deepening or Plugging Back Abandoned Producing Wells. Before plugging any well authorized for abandonment pursuant to Section 11.5, Unit Operator shall give notice to the Party or Parties owning Committed Working Interests in the tract of land upon which the well is located, which Parties, for the further purposes of this Section 11.6, shall constitute the Parties entitled to initiate and participate in a proposed Deepening or Plugging Back operation. Within ten (10) days after receipt of said notice, any such Party desiring the Deepening or Plugging Back of such well shall give notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation; and all the provisions of Subdivisions E, F, and G of Section 11.1 shall apply in the same manner as if the proposed Deepening or Plugging Back were a proposal for the Drilling of an Exploratory Well, subject, however, to the provisions of Section 11.2 and Section 11.3. If no Party gives notice of desire to Deepen or Plug Back such well within said period often (10) day. or if such notice is given but no party elects to proceed with the Deepening or Plugging Back of the well within the time specified therefor, Unit Operator shall plug and abandon the well for the account of the Party or Parties owning the well.

ARTICLE 12
RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Use of Terms. As used in this Article, the terms "Drilling Party" and "Non-Drilling Party" are to be understood as including "Completing Party" and "Non-Completing Party" and "Participating Party" and "Non-Participating Party", respectively, as such terms are used in Articles 8, 9, and 11.

12.2 Scope of Article. The rights and obligations of the Drilling Party and Non-Drilling Party with respect to any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein shall be governed by the succeeding provisions of this Article 12.

12.3 Relinquishment of Interest by Non-Drilling Party. When any Drilling, Deepening, Plugging Back, or Completion operation is conducted otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party, upon the commencement of such operation, shall be deemed to have relinquished to the Drilling Party, and the Drilling Party shall own, all such Non-

Drilling Party's operating rights and working interest in and to the well with respect to which such operation was conducted. In the case of a Deepening or Plugging Back operation, if a Non-Drilling Party in such operation owned an interest in the well immediately prior to the Deepening or Plugging Back, then the Drilling Party for that operation shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.4 Reversion of Relinquished Interest. If, as a result of any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein, a well is completed as a producer of unitized substances and is a Development Well or results in the establishment or enlargement of a participating area to include such well and if, by reason thereof, there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then the operating rights and working interest relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burden and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in Equipping the well and in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

B. 300% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back, or Completing the well that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged back, or Completed and Equipped for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back operation is involved, then (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.3 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, (i) where a Plugging Back is involved, there shall be added to and deemed part of the Costs incurred in such Plugging Back the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer of unitized substances as a result of such Plugging Back, and (ii) where a Deepening is involved, there shall be added to and deemed part of the Costs incurred in such Deepening the then unrecovered portion of the Costs incurred in the initial Drilling of the well.

12.5 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis, in the ownership of

the well, the operating rights and working interests therein, the materials and equipment in or pertaining to the well, the Production therefrom, and the Costs of operating the well.

12.6 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back, or Completed shall pay and bear all Costs incurred therein and shall own the well and the materials and equipment in the well or pertaining thereto, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall own that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved and shall pay and bear (a) that portion of the Costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party and (b) all Lease Burdens that are payable with respect to that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

12.7 Accounting Due Non-Drilling Party. In the event a relinquishment of interest by a Non Drilling Party occurs pursuant to any provision of this Agreement with respect to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party, upon its request, all information referred to in Subdivision F of Section 16.1 and, in addition, the following:

A. an itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

B. until reversion occurs, a monthly itemized statement of the Costs incurred in operating said well, the quantity of Production obtained therefrom, the proceeds received from the sale of such Production, and the Lease Burdens paid with respect thereto.

12.8 Stand-By Rig Time. Stand-by time for the rig on a well for the period of time allowed for the initiation of a proposal and for the response thereto shall be charged and borne as part of the Costs incurred in the operation just completed. Stand-by time subsequent to said period of time shall be charged to and borne as Costs incurred in the proposed operation, unless no Party elected to participate therein.

12.9 Subsequently Created Lease Burdens. Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest. or any other interest out of its Committed Working Interest and at any time become a Non-Drilling Party with respect to any operation conducted under this Agreement, then the Drilling Party entitled to receive the share of Production to which the Non-Drilling Party would otherwise be entitled shall receive the same free and clear of any such burden, and the Non-Drilling Party who created such burden shall hold the Drilling Party harmless with respect thereto.

ARTICLE 13
ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Made. Whenever, in accordance with the Unit Agreement, a participating area IS established, or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision, or combination being hereinafter referred to as a "resulting area"), an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area. For the purposes of this Article 13, all Costs of a usable well shall be deemed to have been incurred on the date the well was Completed.

13.2 Definitions. As used in this Article 13:

A. "Usable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which the resulting area was created or (2) used as a disposal well, injection well, or otherwise in connection with the production of unitized substances from such resulting area.

B. "Intangible value" of a usable well within a resulting area means the amount of those Costs incurred in Drilling, Completing, and Equipping such well, down to the deepest pool or zone for which such resulting area was created, which contribute to the production of unitized substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well was operated prior to the effective date of such resulting area:

(1) .5 % per month for a cumulative total of 60 months, and

(2) NONE% per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the production of unitized substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this Agreement.

D. "Value" of tangible property means the amount of Costs incurred in the construction or installation thereof (except installation costs properly classified as part of the intangible costs incurred in connection with a well), reduced, in the case of tangible property which is generally regarded as depreciable, at the rate of .50 % per month for each month during any part of which such well has been operated prior to the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by the establishment or enlargement of a participating area, and as of such effective date, an adjustment shall be made in accordance with the following provisions, except to the extent otherwise specified in Section 13.6:

A. The intangible value of each usable well within such resulting area on the effective date thereof shall be credited to the Party or Parties owning such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of usable wells shall be charged to all Parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties owning such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of the tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or usable well which also serves another participating area or other participating areas, the value of such tangible property and usable well (including the intangible value thereof shall be determined in accordance with Subdivision D of Section 13.2, and such value shall be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives the Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and usable well (including the intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as is the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator in such manner that an adjustment shall be made for the intangible value of usable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this Agreement; and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of a contraction of a participating area, an adjustment shall be made with each Party owning a

Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this Section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B of this Section 13.4, and a separate adjustment for tangibles shall be made in accordance with Subdivision C of this Section 13.4.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, was delivered to such Party with respect to such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, plus (2) the total amount credited to such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section 13.4 over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of(l) the excess, if any, of the charge provided for in said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section 13.4 is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against Parties who remain in the participating area after such contraction and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all usable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment provided for shall be owned by the Parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a usable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interest of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a usable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date, then insofar, but only insofar, as they relate to such well, the adjustments provided !"or in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party with respect to (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back, or Completed otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B of Section 13.3, with respect to its Committed Working Interests other than those referred to in (1) and (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back, or Completed for the account of all Parties entitled to participate therein exceeds the amount provided in Subdivison A of this Section.

13.6 to be charged against the Drilling Party, such excess shall be applied against the reimbursement

to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14
SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this Agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this Article 14 by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided for in the Unit Agreement and except as otherwise specified in this Agreement (particular reference being made to Section 25.1, Section 27.1, and that portion of Section 11.5 relating to abandonment of producing wells outside of a participating area), the affirmative vote of IMAGE OMITTED Parties having 65 % or more of the voting power on any matter which is proper for action by them shall be binding upon all Parties

entitled to vote thereon; provided, however, if one Party voting in the affirmative has 65 % or more but less than 75 % of the voting power, the affirmative vote of such Party shall not be binding upon the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than 35 % but less than 50% of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding upon all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any Approval or Direction provided for in this Agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding upon all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties, or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time, and a meeting shall be called by Unit Operator upon written request of any Party having voting power on any matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat notice of the time, place, and purpose of the meeting. Unit Operator's representative shall be the Chairman of such meeting.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party notice, describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator within such period as may be designated in the notice given by Unit Operator (which period shall be not less than ten (10) nor more than thirty (30) days); provided, however, if, within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon notice, stating the tabulation and result of the vote.

14.5 Representatives. Promptly after execution of this Agreement, each Party, by notice to all other Parties, shall designate a representative authorized to vote for such Party and may designate an alternate authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by notice given to all other Parties, provided such notice designates a new representative or alternate representative, as the case may be.

14.6 Audits. Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 1.

14.7 Extraneous Projects. Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this Agreement.

ARTICLE 15
UNIT OPERATOR'S POWERS AND RIGHTS

15.1 In General. Subject to the limitations set forth in this Agreement, all operations authorized by the Unit Agreement and this Agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment, and any other property used in connection with any operation within the Unit Area.

15.2 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone; and their working hours, rates of compensation, and all other matters relating to their employment shall be determined solely by Unit Operator.

15.3 Non-Liability. Unit Operator shall not be liable to any Party for anything done or omitted to be done by it in the conduct of operations hereunder, except in case of bad faith.

15.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent

that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether Federal, State, or local, inability to obtain necessary rights of access, or any other cause reasonably beyond the control of Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the Parties as promptly as is reasonably practicable.

15.5 Lien. Each of the Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment, and other property, and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. In addition to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or of any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the rate of *% per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the Parties chargeable therewith payment in advance of their respective shares of the estimated amount of Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after receipt thereof and thereafter shall bear interest at the rate of *% per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening, Plugging Back, or Completing operation and, notwithstanding any other provisions of this Agreement, shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for such payment by the Party or Parties chargeable therewith.

15.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Deepening, or Plugging Back operation conducted hereunder may be conducted by Unit Operator with its own tools and equipment, provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs of such operation, except that in any case where Unit Operator alone constitutes the Drilling Party, such form shall receive the Approval of the Parties within the participating area or other designated area for such well prior to the commencement of such operation.

15.8 Rights as Party. As an owner of a Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not Unit Operator. In each instance where this Agreement requires or permits a Party to give notice, consent, or approval to Unit Operator, such notice, consent, or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent, or approval. *2% above prime rate as set by the Chase Manhattan Bank of New York City, New York

ARTICLE 16
UNIT OPERATOR'S DUTIES

16.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling of Wells. Drill, Deepen, Plug Back, or Complete a well or wells only in accordance with the provisions of this Agreement.

B. Compliance with Laws and Agreements. Comply with the provisions of the Unit Agreement, all applicable Jaws and governmental regulations (whether Federal, State, or local), and Directions of the Parties pursuant to this Agreement. In case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern.

C. Consultation with Parties. Consult freely with the Parties within the area affected by any operation hereunder and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment.

D. Payment of Costs. Pay all costs incurred in operations hereunder promptly as and when due and payable and keep the Committed Working Interests and all property used in connection with operations under this Agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving notice thereof to the Parties affected thereby.

E. Records. Keep full and accurate records of all Costs incurred and of all controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized employees or agents of the Parties at reasonable intervals during usual business hours at the office of Unit Operator.

F. Information. Furnish promptly *to* each Party chargeable with Costs of the operation Involved and to each additional Party who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditures or itemizations of estimated expenditures in excess of Twenty –Five Thousand Dollars ($25,000), (2) copies of all drilling reports, well logs, and State and Federal reports, (3) samples of cores and cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (4) such other and additional information or reports as may be required by Direction of the Parties within the area affected. If multiple copies of any such materials are requested by any Party, Unit Operator may charge the cost thereof directly to the requesting Party.

G. Access to Unit Area. Permit each Party, through its authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting materials, equipment, or other property used in connection with operations under this Agreement and to have access at reasonable times to information and data in the possession of Unit Operator concerning Unit operations.

16.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the State in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 3 or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties, except as above specified. Upon request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractors'. Unit Operator shall require all contractors engaged in operations under this Agreement to comply with the Workmen's Compensation Law of the State in which the Unit Area is located and to maintain such other insurance as may be required by Direction of the Parties.

C. Automotive Equipment. In the event Automobile Public Liability insurance is specified in Exhibit 3 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Unit Operator's fully owned automotive equipment.

16.3 Non-Discrimination. In connection with the performance of work under this Agreement, Unit Operator agrees to comply with the provisions of Exhibit 4. Unit Operator agrees to insert non-discrimination provisions in all subcontracts hereunder, as required by law or regulation.

16.4 Drilling Contracts. Each Drilling, Deepening, Plugging Back, or Completing operation con· ducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15. 7, shall be performed by a reputable drilling contractor having suitable equipment and personnel, under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid, if bids were obtained, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided for shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17
LIMITATIONS ON UNIT OPERATOR

17.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change in Operations. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of Twenty Five Thousand Dollars($25,000); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Completing, or Deepening or Plugging Back operation, or to undertake any other project, in accordance with this Agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith, and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all Parties as promptly as reasonably possible.

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator, appoint any sub-operator, or execute any Designation of Agent.

D. Settlement of Claims. Pay in excess Ten Thousand Dollars ($10,000) in settlement of any claim (other than Workman's Compensation Claims) for injury to or death of persons or for loss of or damage to property.

E. Determinations. Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this Agreement.

ARTICLE 18
TITLES

18.1 Representation of Ownership. Each Party represents to all other Parties that, to the best of its knowledge and belief, 1ts ownership of Committed Working Interests in the Unit Area is that set out in Exhibit B to the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cau3e for canceling or terminating this Agreement.

18.2 Title Papers to be Furnished.

A. Lease Papers. Each Party, after executing this Agreement, shall upon request promptly furnish Unit Operator with copies of all leases, assignments, options, and other contracts which it has in its possession relating to its Committed Working Interests.

B. Title Papers for Initial Test Well. Promptly after the effective date of this Agreement each Party within the area described as the Title Examination Area in Exhibit 2 shall, at its own expense but without responsibility for the accuracy thereof, furnish Unit Operator with the following title materials relating to all lands within such area in which it owns Committed Working Interests:

(1) Abstracts of title based upon the County records, certified to the current date;

(2) All lease papers, or copies thereof, mentioned in Subdivision A of this Section 18.2 which the Party has in its possession and which have not been previously furnished to Unit Operator;

(3) Copies of any title opinions which the Party has in its possession;

(4) If Federal lands are involved, status reports of current date, setting forth the entries found in the BLM State Office for such lands, and also certified copies of the Serial Registers for the Federal leases involved;

(5) If State lands are involved, status reports of current date, setting forth the entries found in the State records for such lands; and

(6) If Indian lands are involved, status reports of current date, setting forth the entries found in the Bureau of Indian Affairs Agency Realty Office having jurisdiction over such lands and in the Bureau of Indian Affairs Land Titles and Records Office having jurisdiction over such lands.

C. Title Papers for Subsequent Wells. Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 2,560 acres and not including any lands within a participating area. When the Drilling of a Development Well receives the Approval of the Parties within the participating area in which it is to be Drilled, a title examination area covering lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall, at its own expense and upon request, furnish Unit Operator with the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. Title Papers on Establishment or Enlargement of a Participating Area. Upon the establishment or the enlargement of a participating area, each Party shall promptly furnish Unit Operator all the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 Title Examination. Promptly after all title materials delivered pursuant to Section 18.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties within the title examination area as soon as they are received. Each Party shall be responsible, at its expense, for curing its own titles. After a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing, within fifteen (15) days after receipt of such recommendations, of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as part of the Costs of Drilling the well for which such title examination was made.

18.4 Option for Additional Title Examination. Any Party who furnishes materials for title examination pursuant to Section 18.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same; and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove titles according to the provisions of this Article 18

18.5 Approval of Titles Prior to Drilling. Where the Committed Working Interests within a title examination area are owned by more than one Party, no Drilling shall be conducted in such area until t1tles to the Comm1tted Working Interests therein have received the Approval of the Parties as hereinafter m th1s Section prov1ded. If a Drilling Block has been designated for the Drilling of a well, such well shall not be Drilled until titles to the Committed Working Interests within the title examination area established for such well have received the Approval of the Parties within the Drilling Block in which such wells to be Drilled. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If lands outside a participating area are included in the title examination area for a Development Well, such well shall not be Drilled until t1tles to the Committed Working Interests within such title examination area have received the Approval of the Parties therein. In the event Approval of the Parties is not obtained as in this Section 18.5 provided, the Drilling Party (whether one or more) may proceed with the Drilling of the well, but sa1d Drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such approval to the s me extent as if approval of titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have gl ven its approval to the titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances).

18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area. Where the Committed Working Interests within a participating area are owned by more than one Party, no Committed Working Interest shall be included within said participating area or be entitled to participate in the Production of unitized substances from said participating area until title to such Committed Working Interest has received the Approval of the Parties within said participating area. Approval of titles to lands within a participating area shall be binding upon all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

18.7 Failure of Title to Committed Working Interest Before Approval. If title to a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against any and all liability on account thereof.

18.8 Failure of Title to Committed Working Interest After Approval. If title to a Committed Working Interest which has received the Approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block or within a Drilling Block upon which a well has been completed otherwise than as a producer of unitized substances in Paying Quantities, or if title to a Committed Working Interest which has received the Approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

A. the loss, the cost of litigation, and any ensuing liability shall be borne by the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest);

B. there shall be relinquished to the Party whose Committed Working Interest has been lost such proportionate part of each of the 0ther Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like proportion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the Parties within such participating area or Drilling Block; and

C the relinquished portions of said Committed Working Interests (subject to their proportionate part of the Lease Burdens attributable thereto) shall be deemed owned by the Party receiving same.

18.9 Joinder by True Owner. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this Agreement or the Unit Agreement. The true owner of a Committed Working Interest, title to which has failed, may join in this Agreement or enter into a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the Approval of the Parties within the Unit Area and subject to any valid claims by the true owner.

18.10 Title Challenge. In the event of any suit or action challenging the title of any Party to any of the oil and gas rights committed by said Party to this Agreement and to the Unit Agreement, the Party served will immediately notify the other Parties, and the Party whose title has been challenged shall forthwith take over and be in charge of the conduct of the litigation and shall bear the entire cost of such litigation, unless the title has previously received the Approval of the Parties, in which event the provisions of Section 18.8 shall apply.

ARTICLE 19
UNLEASED INTERESTS

19.1 Treated as Leased. If a Party owns in fee all or any 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 Party shall be deemed to own a Committed Working Interest in such tract and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached as Exhibit 5.

19.2 Execution of Lease. In any provision of this Agreement where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party. each such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall

execute an oil and gas lease to such other Party in the form of Exhibit 5, which shall satisfy the requirement for an assignment or conveyance of a Committed Working Interest.

ARTICLE 20
RENTALS AND LEASE BURDENS

20.1 Rentals. Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or with respect to its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payment, provided it has acted in good faith.

20.2 Lease Burdens. Each Party entitled to receive a share of Production shall be obligated for any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests, and any similar interest payable with respect to such share or the proceeds thereof; provided, however, at any time any such Party entitled to receive Production is not taking in kind or separately disposing of its share, that portion of such Production or the proceeds thereof (at the option of such Party) accruing to such Lease Burdens shall, upon request, be distributed to such Party.

20.3 Loss of Committed Working Interest. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area, the provisions of Section 18.8 shall apply.

ARTICLE 21

TAXES

21.1 Payment. Any and all ad valorem and severance taxes payable upon Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment, or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by unitized substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens shall be paid by Unit Operator as and when due and payable.

21.2 Apportionment. Taxes upon materials, equipment, and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All taxes paid by Unit Operator upon or measured by the value of Production shall be charged to and borne by the Parties owning the same in the same proportions as the assessed values of their respective portions of such Production bear to the whole thereof. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or unitized substances (as the case may be) upon which or with respect to which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 Transfer of Interests. In the event of a transfer by one Party to another under the provisions of this Agreement of any Committed Working Interest or of any other interest in any well or in the materials and equipment in any well, or in the event of the reversion of any relinquished interest as in this Agreement provided, the taxes above mentioned assessed against the transferred or reverted interest for the taxable period in which such transfer or reversion occurs shall be apportioned among said Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 Notices and Returns. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies, or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports, and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the Parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22
WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 Right of Withdrawal. If the owner of any substantial interest in a tract within the Unit Area fails or refuses to join in the Unit Agreement, then such tract may be withdrawn from the Unit Agreement, as provided in the Unit Agreement.

22.2 Non·Withdrawal. Should the Party or Parties having the right under the Unit Agreement to withdraw a tract from the Unit Agreement fail to exercise such right, then all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23
COMPENSATORY ROYALTIES

23.1 Notice. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give notice thereof to each Party affected by the demand.

23.2 Demand for Failure to Drill a Development Well. If the demand for compensatory royalties results from the failure to have Drilled a Development Well and such well is not Drilled, then Unit

Operator shall pay such compensatory royalties. Such payment shall be charged as Costs incurred in operations within the participating area involved.

23.3 Demand for Failure to Drill a Well Other Than a Development Well. If the demand for compensatory royalties results from the failure to have Drilled a well other than a Development Well and such well is not Drilled, then Unit Operator shall pay such compensatory royalties. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well under Subdivision B of Section 10.4.

ARTICLE 24
SEPARATE MEASUREMENT AND SALVAGE

24.1 Separate Measurement. If a well completed as a producer of unitized substances is in or becomes included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request therefor by any interested Party, a method of measuring the Production from such well without the necessity of additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines, or other facilities for separate measurement of the unitized substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well, notwithstanding any other provisions of this Agreement.

24.2 Salvaged Materials. If any materials or equipment are salvaged from a well completed as a producer after being Drilled, Deepened, Plugged Back, or Completed otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Party of its relinquished interest in the well, the proceeds derived from the sale thereof or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to the Non-Drilling Party of its relinquished interest in such well.

ARTICLE 25
ENHANCED RECOVERY AND PRESSURE MAINTENANCE

25.1 Consent Required. Unit Operator shall not undertake any program of enhanced recovery or pressure maintenance involving injection of gas, water, or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of Parties owning, on an Acreage Basis, not less than 90 % of the Committed Working Interests in the participating area affected by any such program. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 25.1, the conduct of such program shall be subject to supervision by the Parties as set forth in Article 14.

25.2 Above-Ground Facilities. This Agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant, or other above-ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26
TRANSFERS OF INTEREST

26.1 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.2 Assumption of Obligations. No transfer of any Committed Working Interest shall be effective unless the same is made expressly subject to the Unit Agreement and this Agreement and

the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this Agreement insofar as they relate to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.3 Effective Date. A transfer of Committed Working Interests shall not be effective as among the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.2. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued under this Agreement prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening, Plugging Back, or Completing of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27
RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 Surrender or Release Within Participating Area. A Committed Working Interest in land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening, Plugging Back, or Completing of a well within such participating area may be relieved of further obligations with respect to such participating area, as then constituted, by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Commit ted Working Interests owned by such Party in lands within the participating area, together with the

entire interest of such Party in any and 211 wells, materials, equipment, and other property within or pertaining to such participating area.

27.2 Procedure on Surrender or Release Outside Participating Area. Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any participating area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties notice thereof, describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party or Parties desiring to surrender an assignment of such Committed Working Interest by giving the Party or Parties desiring to surrender notice of election so to do within thirty (30) days after receipt of notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment. If no Party elects to take such assignment within said thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same, if surrender thereof can be made in accordance with the Unit Agreement. Whenever a Party owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

27.3 Accrued Obligations. A Party making an assignment or surrender in accordance with Section 27.1 or Section 27.2 shall not be relieved of its liability for any obligation accrued under this Agreement at the time the assignment or surrender is made or of the obligation to bear its share of the Costs incurred in any Drilling, Deepening, Plugging Back, or Completing operation in which such Party had elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party under this Agreement and under the Unit Agreement.

ARTICLE 28
LIABILITY

28.1 Liability. The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this Agreement or the Unit Agreement be construed as creating, a mining or other partnership or association between the Parties or as rendering them liable as partners or associates.

28.3 Election. Each of the Parties hereby elects, under the authority of Section 761(a) of the Internal Revenue Code of 18 86 to be excluded from the application of all the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986. In making this election, each Party states that income derived by it from operations under this Agreement can be adequately determined without computation of partnership taxable income. If the income tax laws of the State or States in which the Unit Area is located contain, or hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1986 above referred to under which a similar election is permitted, each of the Parties agrees that such election shall be exercised; and should the income tax laws of such State or States require evidence of such election, Unit Operator is authorized and directed to execute the same on behalf of each Party. Beginning with the first taxable year of operation under this Agreement, each Party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply, and no Party will file an application under Federal Regulations Section 1.761·2(b)(3)(i) to revoke said election. *See Page 22.

ARTICLE 29
NOTICES

29.1 Giving and Receipt. Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

29.2 Addresses. For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

ARTICLE 30
EXECUTION

30.1 Counterparts. This Agreement may be executed in counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This Agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this Agreement. Such ratification shall have the same effect as if the Party executing it had executed this Agreement or a counterpart hereof.

30.3 Effect of Signature. When this Agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other, and each Party theretofore or thereafter

executing this Agreement shall thereupon become and remain bound hereby until the termination of this Agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this Agreement, then, at the expiration of said period, this Agreement shall terminate.

ARTICLE 31
SUCCESSORS AND ASSIGNS

31.1 Covenants. This Agreement shall be binding upon and shall inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns, and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute covenants running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32
HEADINGS FOR CONVENIENCE

32.1 Headings. The Table of Contents and the headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

ARTICLE 33
RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this Agreement shall be deemed to constitute a waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether Federal, State, or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34
SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have joined the Unit Agreement shall be privileged to execute or ratify this Agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any working interest in land within the Unit Area which is not then committed hereto may be committed to this Agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35
CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B to the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying Party executes this Agreement, be deemed to be, for the purpose of this Agreement, a Committed Working Interest owned by the carrying Party.

ARTICLE 36
EFFECTIVE DATE AND TERM

36.1 Effective Date and Term. This Agreement shall become effective upon the effective date of the Unit Agreement, shall continue in effect during the term of the Unit Agreement, and shall terminate concurrently therewith.

36.2 Effect of Termination. Termination of this Agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this Agreement, the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties has been made. Termination of this Agreement shall automatically terminate all rights and interests acquired by virtue of this Agreement in lands within the Unit Area, except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

ARTICLE 37
OTHER PROVISIONS

37.1 PAYMENT OF TAXES RELATING TO PRODUCTION.

A. At and during such time, or times, as Non-Operator is exercising the right to take in kind or separately dispose of its proportionate part of the production as set forth in Paragraph 6.4 hereof, Non-Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.

B. At and during such time, or times, as Unit Operator is selling Non-Operator's proportionate part of the production, as set forth m Paragraph 6.5 hereof, Unit Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.

37.2 NON-CONSENT INVESTMENT ADJUSTMENT. Notwithstanding any provision in this Agreement to the contrary, no Party shall be liable, without its consent, for any investment adjustment charge under the provisions of Section 13.3D or 13.4D, which charge is in excess of the Party's credits under Article 13. In the event of the establishment, enlargement or contraction of a Participating Area, the provisions of Article 12, and other provisions related thereto, shall be applicable to any investment adjustment to the same extent that these provisions are applicable to a well drilled otherwise than for the account of all Parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If, within 30 days after proposal for establishment, enlargement or con traction of a Participating Area has been submitted by Unit Operator in writing to the Working Interest Owners involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement or contraction, that Party shall be a Non-Drilling Party, and shall be deemed, as of the effective date of the resulting area in connection with which such charge is made, to have relinquished the interest for which such charge is made to the Party, or Parties, who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which latter Party, or Parties, shall be the Drilling Party with respect to this relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12, except that it is specifically understood that the Article 12.4B percentage for exercise of the Non-Drilling Option applicable to establishment, enlargement or contraction of the Participating Area be 300%.

28.3 TAX ELECTION. (Continued) This election by the Parities to be excluded from the application of all of the provisions of Subchapter K does not apply in any way to any subsequent agreements between the Parties, or with third parties, concerning the sharing of costs for the drilling of any wells in the Unit Area. The Parties reserve the right to decide with each such subsequent agreement whether they elect to be excluded from the application of Subchapter K.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

O. F. DUFFIELD

By: /s/O. F. Duffield
O. F. Duffield

Address: 16786 Kincheloe Road
Siloam Springs, Arkansas 72761

Date of Execution

August 5, 2004

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me by O. F. DUFFIELD ,

as MANAGER

of Cortez Exploration, LLC.

This 5TH day of AUGUST , 2004.

WITNESS my hand and official seal.

My Commission Expires:

DECEMBER 4, 2010

/s/ Gale L. Staton
Notary Public

UNIT OPERATOR SIGNATURE PAGE FOR THE
PARADISE UNIT AGREEMENT
NYE AND MINERAL COUNTIES, NEVADA

COPAS 1984 ONSHORE
Recommended by the Council
of Petroleum Accountants
Societies

EXHIBIT "1"

Attached to and made a part of the Unit Operating Agreement for the Gabbs Valley Unit Area, Mineral and Nye Counties, Nevada

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 andlor contract labor directly employed on the Joint Property in 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 laterial which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2 Statement and Billings

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

3 Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made Within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank, New York, New York the first day of the month in which delinquency occurs plus 2% the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs. and other costs in connection with the collection of unpaid amounts

4 Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof. provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment No adjustment favorable to Operator shall be made unless it is made withm the same prescribed period The provisions of th1s paragraph shall not prevent adjustments resulting fi"om 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 wllhln 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 1. 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 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 approvmg 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 th1s Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions 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 the Joint Property if such charges are excluded from the overhead rates

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or 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 1mposed 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 Paragraphs 3A and 3B of this Section II.

4 Employee Benefits

Operator's current costs or 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

Material

5

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 rece1vmg point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above. the option to equalize or charge actual trucking cost is avallable 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 twelve percent (12 %) 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 1n Paragraph 8A above. Operator rnay elect to use average commercial rates prevailmg 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 Assoc lation.

9 **Damages and Losses to Joint Property**

All costs or expenses necessary for the repa1r or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, 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 Judgment 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 requ1red to be earned 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

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

(X) shall be covered by the Overhead rates, or
( ) 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. 0verhead- Fixed Rate Bass

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

Drilling well Rate $ 6,500.00

(Prorated for less than a full month)

Producing Well Rate $ 650.00

(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 sha ll be made during suspensron 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 period of live (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 multi-completed well 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 any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered *by* unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead- Percentage Basis

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

(a) Development

_____ Percent (_____ 0/o) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Sect1on II and all salvage credits.

(b) Operating

_____ *Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided* under Paragraphs 2 and 10 of Section II, all salvage credits, the value of inJected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also. preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer. and orig1nal cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2 Overhead-Major Construction

To compensate Operator for Overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible 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

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 worlover 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 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

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

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

C. 2 *%* of total costs in excess of $1.000,000.

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

4 Amendment of Rates

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

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

Operator Is responsible for Joint Account Material and shall make proper and tImely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property: however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Materia, such disposal being made either through sale to Operator or Non-Operator, division in kind, 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.

Purchases

1

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.

Transfers and Dispositions

2

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 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 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 new price, in effect at date of movement. as listed *by* a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, 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 (I) and *(2).*

B. Good used Materia1 (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A. If Material was originally charged to the Joint Account as used Material.

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

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

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

C. Other Used Material

(1) Condition C

Material wh1ch is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%') of current new price determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe

of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e. g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tublar 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 Marerial at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4 **Warranty of Material Furnished By Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1 **Periodic Inventories, Notice and Representation**

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

2 **Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages. but, Operator shall be held accountable only for shortages due to lackof reasonable diligence.

3 **Special Inventories**

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

4 **Expense of Conducting Inventories**

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

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

EXHIBIT "2"

Initial Test Well

Attached to and made a part of the
Unit Operating Agreement for the
Gabbs Valley Unit Area
Mineral and Nye Counties, Nevada

)CATION: The initial test well shall be drilled at a location selected by Unit Operator and approved by the Authorized Office of the Bureau of Land Management.

PTH: The initial test well shall be drilled conformably w1th the terms of Article 9 of the Paradise Unit Agreement.

STS: All costs and expenses incurred in connection with the initial test well, including drilling, testing and completing into the tanks, if an oil well, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by O. F. Duffield and such other parties hereto as agreed to bear such costs in accordance with separate agreement among themselves and where applicable subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received toward the drilling of the initial test well shall belong to the parties sustaining the risk of drilling the initial test well.

LE EXAMINATION AREA: The title examination area for the initial test well shall be an area surrounding the location of such well as may be designated by the Unit Operator.

ST OF TITLE EXAMINATION: The cost of title examination shall be charged as a cost of drilling the initial test well.

EPENING, PLUGGING RACK: In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Well shall be governed by the provisions of Section 9.3 to this agreement.

EXHIBIT "3"

Attached to and made a part of the
Unit Operating Agreement for the
Gabbs Valley Unit Area
Mineral and Nye Counties. Nevada

INSURANCE

For Operations by Unit Operator: The Unit Operator shall carry for the benefit of the joint account insurance to cover the Unit Operator's operations on the lands covered by this Agreement as follows:

1. Workmens' Compensation Insurance in full compliance w1th the laws of the applicable State in which operations are conducted.

2. Employer's Liability Insurance with limits of$100,000 as to any one person and $100,000 as to any one accident.

3. Public Liability Insurance: Bodily Injury (other than automobile) w1th limits of$1,000,000 as to any one person, $1,000,000 as to any one accident; and Property Damage (other than automobile) with limits of$1,000,000 for each accident, $1,000,000 aggregate.

4. Automobile Public Liability Insurance, with limits of $50,000 as to any one person and
$50,000 as to any one accident, and Property Damage of $50,000 for each accident; excess coverage of such limits up to $1,000,000 combined single limit.

Operator shall not carry physical damage insurance on Jointly-owned property, it being understood and agreed that each party will be responsible for its own interest in such properties and will assume its portion of any loss that occurs. Operator shall promptly notify Non-Operator in writing of all losses involving damage to jointly-owned property in excess of S 1,000.

Operator shall submit to Non-Operators certificates of insurance in evidence of the above coverage. Such certificates shall specify that in event of cancellation or material change in coverage at least ten days prior written notice will be given to Non-Operators at their respective addresses.

Operator shall notify Non-Operators promptly in writing of any occurrences wherein liability may exceed the limits of the insurance if covered by insurance as set out above.

EXHIBIT "4"

Attached to and made a part of the
Unit Operating Agreement for the
Gabbs Valley Unit Area
Mineral and Nye Counties, Nevada

EXECUTIVE ORDER NO. 11246 AND EXECUTIVE ORDER NO. 11598
PROVISIONS OF SECTION 202 OF EXECUTIVE ORDER NO. 11246

(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure the applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. 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 contractor 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 non-discrimination clause.

(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advertising the labor union or workers' representative of the contractors' commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The contractor will furnish all information and reports required by Executive Order No. 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 his 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 contractor's non-compliance with the non-discrimination clauses of this contract or with any of such rules. regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. I 1246 of September 24, I 965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. I 1246 of September 24, I 965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

(7) The contractor will include the provisions of Paragraphs (I) 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 No. 11246 of September 24, 1965, so that such provision will be binding upon each subcontractor or vendor. The contractor 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 contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

FORM 88 UNIT-WYO.-COLO

OIL AND GAS LEASE

AGREEMENT, Made and entered into this day of , 20 , by and between

, party of the first part, hereinafter called lessor, (whether one or more) and ,party of the second part, lessee.

WITNESSETH: That the lessor for and in consideration of Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided, and of the agreements of lessee herein contained, herby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for the producing oil, gas, casinghead gas, and all other minerals, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in County, State of to wit:

EXHIBIT "5"

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

acres more or less.

TO HAVE AND TO HOLD the same (subject to the other provisions herein contained) for a term of ten years from this date (call "primary term") and as long thereafter as oil or gas or casinghead gas or either or any of them, is produced therefrom; or as much longer thereafter as the lessee in good faith shall conduct drilling operations thereon and should production result from such operations, this lease shall remain in full force an effect as long as oil or gas or casinghead gas, shall be produced therefrom.

In consideration of the premises it is hereby mutually agreed as follows:

1. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such one-eight (1/8) royalty the market price for oil of like grade and gravity prevailing in the field where produced on the day such oil is run into the pipe line, or into storage tanks.

2. The lessee shall pay lessor, as royalty, one-eighth (1/8) of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not used or sold shall pay Fifty Dollars ($50.00) per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well. The lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense.

3. To pay lessor for gas produced from any oil well and used off the premises or in the manufacturing of gasoline or any other product a royalty of oneeight (1/8) of the market value, at the mouth of the well, payable monthly at the prevailing market price.

4. If operation• for the drilling of a well for oil or gas arc not commenced on said ian on or before one year from this date, this lease shall terminate a• to both parties, unless the Jesse< shall. on or before one year from this date, pay or tender to the lessor or for the lessor's credit in

Bank at

or its successor or successors, which bank and its successors are lessor's agents and which shall continue as the depository regardless of changes in the ownership of the land, the sum of Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well one year from said date. In like manner and upon payments or tenders the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of this lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Lessee may at any 1me execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases. Notwithstanding the death of the lessor, or his successor in interest, the- payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors and administrators of such persons.

5. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced by the next ensuing rental paying date, or provided the lessee begins or resumes the payment of rentals 1n the manner and amount above herein provided; and in this event the preceding paragraphs. hereof governing the payment of rental and the manner and effect thereof shall continue in force.

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

7. Lessee shall have the right to use, free of cost, gas, oil, and water produced on said land for its operation thereon, except water from wells of lessor. When requested by lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops on said land. Lessee shall have the right at any time to remove all improvements, machinery. and fixtures placed or erected by lessee on said premises, including the right to pull and remove casings.

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

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

10. There shall be no obligation on the put of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise or otherwise, or to furnish separate measuring or receiving tanks. It is hereby agreed that, in the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such part or parts shall fail or make default in the payment of the proportionate part of the rent due from him or them, on an acreage basis, such default shall not operate to defeat or affect this lease in so far as it covers a part or part of said land upon which the said lessee or any assignee hereof shall make due payments of said rentals.

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

12. Lessee shall have the right to unitize, pool, or combine all or any part of the above described ands with other. lands in the same general area by entering 1nto a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms. conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions o! the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments. to be made hereunder to lessor shall be based upon production only as so allocated.

Lessor shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee.

13. In addition to and not in limitation of the rights granted in paragraph 12 hereof, lessee is hereby granted the right and option to consolidate, pool or combine the lands covered by this lease. or any portion or portions thereof or any stratum or strata thereunder, with other lands or like strata there under for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons, or any or all of said products, when in lessee's discretion and judgment it is advisable so to do for proper development or operation of the premises, or to conform to spacing or zoning rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessee may elect provided that all lands in any such unit shall be contiguous (either adjoining or cornering) but for this purpose contiguity shall not be deemed to be destroyed by reason of the existence of a y excluded street. alley, road, railroad, canal, stream. right of way or other similar strip or parcel of land. Any unit formed under this paragraph for production of oil and casinghead gas shall not exceed forty-three (43) acres in surface area, for production of dry or gas well shall not exceed six hundred and sixty (660) acres in surface area, and for production of condensate or distillate shall not exceed three hundred and thirty (330) acres in surface area unless some larger unit for condensate or distillate is permitted or prescribed by lawful authority, in which event such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this lease, the size of any of the units mentioned herein may be increased to the size of the there existing governmental survey unit nearest in size to the unit acreage prescribed herein. The right and option herein granted to lessee may be exercised at any time or from time to time, whether before or after production is secured and whether or not a unit may theretofore have been created for some other product, by executing in writing an instrument identifying and describing the unit created. and· by delivering a copy thereof to lessor or by recording a copy thereof in the county where the land 1s located. The lands in any such unit shall be developed or operated as one tract and any drilling on or production from such unit, whether or not from lands described in this lease, shall be deemed to be drilling done or production secured on the lands subject to this lease for all purposes except for the purpose of payment of royalty hereunder. In such event, and in lieu of the royalties elsewhere herein specified, the lessor shall receive from production on any such unit only such . portion of the royalty, at the rate stipulated elsewhere herein, as lessor's acreage in the unit (or his royalty interest therein) bears to the total acreage. Formation of any unit as herein provided shall in no manner affect the ownership or amount of any rental which may be payable under the terms of this lease.

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

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

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

17. If within the primary term of this lease production on the leased premises shall cease from any cause, this lease shall not terminate provided operations for the drilling of a well sha11 be commenced before or on the next ensuing rental paying date: or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinbefore provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for drilling a well within sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations and. if production results therefrom, then as long as production continues.

18. It is agreed that this lease shall never be forfeited or cancelled for failure to perform in whole or in part any of its implied covenants conditions or stipulations until it shall have first been finally judicially determined that such failure exists and after such final determination, lessee is given reasonable time therefrom to comply with any such covenants, conditions, or stipulations.

19. All express and implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damage for failure to comply therewith if compliance is prevented by or if such failure is the result of any such law, order, rule or regulation, or if such compliance is prevented by or failure is the result of inability of lessee through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

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

21. With respect to and for the purpose of this lease, lessor, and each of them if there be more than one, hereby release and waive the right of homestead. WHEREOF witness our hands as of the day and year first above written.

_____ _____

_____ _____

AKNOWLEDGMENT

STATE OF _____
}ss.
County of _____

On this day of , 19_, before me personally appeared

to me known to be the person described in and who executed the

foregoing instrument and acknowledged that executed the same as free act and deed.

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

My Commission Expires _____ _____

Notary Public

ACKNOWLEDGMENT-MAN AND WIFE

STATE OF _____
}ss.
County of _____

On this day of , 19_, before me personally appeared

me known to be the person described in and who executed the
foregoing instrument and acknowledged that executed the same as free act and deed, including the re-
lease and waiver of the right of homestead; the said wife having been by me fully apprised of her right and the effect of signing and acknowledging the said instrument.

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

My Commission Expires _____ _____

Notary Public

EXHIBIT 10.15

August 4, 2009

Mr. James C. Einarsen, Manager
Viking Exploration, LLC
6475 West Kingsley Ave.
Littleton, CO 80128

RE: Option to Purchase Okie Draw
and South Okie Prospects,
Natrona County, Wyoming

Dear Mr. Einarsen:

This letter will serve as a formal agreement between Empire and Viking with respect to Empire's option to purchase all of Viking's leasehold and producing interests in the Okie Draw and South Okie Prospects, a description of which is attached hereto as Schedule "A".

As consideration to Empire for paying the lease rentals due August 31, 2009 and September 30, 2009 on leases listed on Schedule "A" and paying Viking a Twenty Five Thousand Dollars ($25,000) cash payment, Viking will grant Empire a six (6) month option commencing September 1, 2009 and ending February 28, 2010, to acquire all of Viking's interests in the leases listed on Schedule "A" for the cash consideration of Thirty Five Thousand Dollars ($35,000). In addition to receiving the cash consideration Viking shall retain the overriding royalties as outlined in Exhibit "A".

During such six (6) month option period Empire will make every effort to locate and purchase the seismic survey conducted by Southland Royalty Corp or its successor in ownership. Perhaps this data cannot be located; if not, Empire will research the cost of a new survey.

In the event Empire exercises its option and drills a test well and any additional development wells, Empire will pay to Viking Ten Thousand Dollars ($10,000) for each completed oil well.

If Empire has not drilled or re-entered a test well on the prospect leases before August 1, 2010 and has no plans to drill or re-enter a test well it shall re-assign all of the prospect leases to Viking. If it has drilled a successful oil well or plans to drill or re-enter a test well then it shall pay the August 31, 2010 rentals to retain the leases in good standing.

This proposal is open for acceptance until 5:00 p.m. Thursday, August 6, 2009; therefore, if you find it acceptable please sign and return one copy of this letter to Empire.

Yours very truly,

EMPIRE PETROLEUM CORPORATION

_____
BY: A. E. WHITEHEAD, PRESIDENT

AEW/gs

Enclosures

Agreed to this 5th day of
August, 2009

VIKING EXPLORATION, LLC

_____
BY: JAMES C. EINARSEN, MANAGER

SCHDULE "A"

SOUTH OKIE DEVELOPMENT PROJECT - LEASE AND ORR SCHEDULE - T37N R85W, NATRONA COUNTY, WYOMING

LEASE NO. & ACREAGE DESCRIPTION	NO. OF ACRES	OWNERSHIP	EXISTING ORR'S	% ORR RETAINED BY VIKING	% NRI TO PURCHASER	EXPIRATION DATE OR LEASE STATUS
W-36587 Sec. 14: SE/4SW/4 (segregated from Okie Draw Unit) Competitive Lease	40	Viking 100%	Eckels et al 1% Gillespie et al 1%	5.50%	92.50% Less SSR* (76% at 150 BOPD)	HBP
W-153586 Sec. 15: SW, SWSE 22: All 23: S/2SW 25: NENE, NWNW, S/2N/2, S/2 26: N2	1800	Viking 100%	0%	5.00%	78.33%	8/31/2011

WYW-174767	720	Viking 100%	0%	5.00%	82.50%	9/30/2017
Sec. 23: E/2NE, NW, N/2SW, SE 24: NW, N/2SW						

Note: *SSR=Competitive Lease - Sliding Scale Royalty under USGS known geologic structures. USGS's ORR's vary from 12.5% for 50 BOPD up to 25.0% for 400 BOPD

SCHDULE "A"

SOUTH OKIE DEVELOPMENT PROJECT - LEASE AND ORR SCHEDULE - T37N R85W, NATRONA COUNTY, WYOMING

LEASE NO. & ACREAGE DESCRIPTION	NO. OF ACRES	OWNERSHIP	EXISTING ORR'S	% ORR RETAINED BY VIKING	% NRI TO PURCHASER	EXPIRATION DATE OR LEASE STATUS
W-36587 Sec. 14: SW/4SE/4 Communitiezed with Sec. 23: N/2NW/4NE/4	40	Viking 12.5% Underwood 87.5%	Eckels et al 1% Gillespie et al 1%	3.50%	92.50% Less SSR* (76.5% at 150 BOPD	Okie Draw 1-4 well is producing and holds by production both leases W-36587 & W-0323746
The above 40 acre tract contains the Okie Draw 1-14 well which has produced 114,088 Bbls. Oil as of Nov., 2005. The Okie Draw Unit was contracted to 60 acres shortly after 4/12/1979 and contains the SW/1/4 SE1/4 Sec. 14 and the N1/2 NW1/4 NE1/4 Sec. 23. The 1-14 well and the 560 gross acres it holds by production, (87.5% Working Interest) can be acquired by PURCHASER of this deal by dealing directly with Carl Underwood in Casper, Wyoming.						
W-36587 Sec. 14: N/2 SW/4, SW/4 SW/4, W/2 SE/4 Sec. 15: N/2 SE/4, SE SE/4	160 120	Viking 12.5%* Underwood 87.5%	Eckels et al 1% Gillespie et al 1% Underwood 2%	3.50%	92.50% Less SSR* (76.5% at 150 BOPD	Competitive Lease - HBP (Held by Production)
W-0323746 Sec. 14: S/2 NW/4, E/2 SE/4	160	Viking 12.5% Underwood 87.5%	Ray A. Hose 1% Underwood 2%	4.50%	80.00%	Non Competitive Lease - HBP (Held by Production)
Sec. 23: W/2 NE/4	80	Viking 12.5% Underwood 87.5%	Ray A. Hose 1% Underwood 2%	4.50%	80.00%	N/2 NW/4 NE/4 is Communitized with Sec. 14: SW/4 Se/4 HBP (Held by Production)
TOTAL	**3,120 gross acres** **2,630 net acres**					

Viking's Acreage for sale: 100% Working Interest under 2560 gross and net acres plus Viking's 12.5% Working Interest under 560 acres. (70 net acres) plus 1/8 interest in Okie Draw 1-14 well. (See terms of the Deal)

Exhibit 10.18

PROSPECT LETTER AGREEMENT

This prospect letter agreement (this "Letter Agreement") is made and entered into this [__] day of October, 2010 (the "Effective Date"), by and between Empire Petroleum Corporation, a Delaware corporation ("Empire"), and [_____] ("Assignee"). Empire and Assignee shall sometimes be referred to herein individually as a "Party" and, collectively, as the "Parties."

Recitals

A. The Gabbs Valley Prospect (the "Prospect") covers approximately 92,825 gross acres, with no depth limitations. A number of leases or portions of leases making up the Prospect have been included in an oil and gas unit formed pursuant to that certain Unit Agreement for the Development and Operation of the Paradise Unit Area, Counties of Nye and Mineral, State of Nevada, dated April 14, 2010, No. ANVN88316X (the "Paradise Unit Agreement"). A copy of the Paradise Unit Agreement is attached hereto as **Exhibit A**. The unit formed under the Paradise Unit Agreement is hereafter referred to as the "Paradise Unit."

B. The prospect leases wholly or partially included in the Paradise Unit are identified and described on **Exhibit B** attached hereto (the "Paradise Unit Leases").

C. There are additional leases included in the Prospect that are not part of the Paradise Unit. The Prospect leases or portions of Prospect leases not included in the Paradise Unit are identified and described on **Exhibit C** attached hereto the "Non-Unit Leases" and, collectively with the Paradise Unit Leases, the "Prospect Leases").

D. Subject to the provisions of the Paradise Unit Agreement, operations for the Paradise Unit have been and shall be conducted pursuant to the Unit Operating Agreement attached hereto as **Exhibit D** (the "Paradise Unit Operating Agreement").

E. Pursuant to that certain Farmout Agreement dated June 11, 2010 attached hereto as **Exhibit E** (the "Farmout Agreement"), by and between Empire and Cortez Exploration, L.L.C. and Windmill Oil & Gas, L.L.C. (the "Cortez Group"), Empire drilled that certain initial test well with respect to the Paradise Unit Leases located on Lease No. N-599901, in the SE/4 of the SE/4 of the NE/4 of Section 12-T12N-R34E (the "Empire Paradise Unit No. 2-12 Well") to a depth of approximately 4,248 feet.

F. Empire owns 98% (of 8/8ths) leasehold interest, record title interest and working interest in all of the Prospect Leases and 98% of 80% (of 8/8ths) net revenue interest in each of the Prospect Leases, all subject to certain reversionary interests to the Cortez Group pursuant to the Farmout Agreement.

G. In exchange for the payment of $[100,000] by Assignee to Empire, the Parties have agreed that the Empire will assign to Assignee [1]% of Empire's gross working interest (which is [1]% of 80% (of 8/8ths) net revenue interest) in the Paradise Unit Leases and the Empire Paradise Unit No. 2-12 Well and grant Assignee an option to participate in the Non-Unit Leases.

Agreement

In consideration of the mutual premises and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. **Purchase Price; Assignment of Transferred Interest**. In exchange for the payment of $[100,000] by Assignee to Empire (the "Purchase Price"), Empire shall assign to Assignee [1]% of Empire's gross working interest (which is [1]% of 80% (of 8/8ths) net revenue interest) in the Paradise Unit Leases and the Empire Paradise Unit No. 2-12 Well (the "Paradise Unit Transferred Interest"). Upon the execution of this Letter Agreement and the payment of the Purchase Price, Empire shall execute and deliver to Assignee assignments of the Paradise Unit Transferred Interest in form and substance reasonably acceptable to Assignee.

2. **Completion of Empire Paradise Unit No. 2-12 Well**. Empire hereby agrees that it will pay for the cost to deepen the Empire Paradise Unit No. 2-12 Well another 800 to 1,000 feet. Assignee shall not have any responsibility to pay the costs to continue drilling the Empire Paradise Unit No. 2-12 Well. Assignee likewise shall not have any responsibility to pay the costs to complete and equip the Empire Paradise Unit No. 2-12 Well into pipeline connections or tanks, or to abandon the Empire Paradise Unit No. 2-12 Well should it be a dry hole, as the case may be. As between Empire and Assignee, the manner in which to drill and complete the Empire Paradise Unit No. 2-12 Well and the costs to be incurred to drill and complete the Empire Paradise Unit No. 2-12 Well shall be in the sole discretion of Empire, consistent with good oil field practice. In this regard, Empire is not required to prepare an AFE or obtain approval of an AFE from Assignee with respect to the drilling and completion (or abandonment) of the Empire Paradise Unit No. 2-12 Well.

3. **Option on Non-Unit Leases**. The Parties acknowledge and agree that with respect to the Non-Unit Leases, Empire has certain optional rights pursuant to Section VII of the Farmout Agreement and, in the event that Empire does not exercise such rights, Empire's interests in the Non-Unit Leases acquired from the Cortez Group pursuant to the Farmout Agreement are subject to a reversionary interest to the Cortez Group (the "Cortez Group Reversionary Interest"). In the event that Empire elects to exercise such optional rights with respect to any Non-Unit Lease, the Parties hereby agree that Assignee shall have the right to participate along with Empire and receive [1]% gross working interest (which is [1]% of 80% (of 8/8ths) net revenue interest) in such Non-Unit Lease (the "Non-Unit Lease Transferred Interest") by paying [1]% of the rentals of such Non-Unit Lease, which Non-Unit Lease Transferred Interest shall be subject to the Cortez Group Reversionary Interest. Empire shall be the operator with respect to the drilling, completion and/or abandonment of the Non-Unit Test Well (as defined in the Farmout Agreement), if any, and all operations of the Non-Unit Leases shall be conducted pursuant to the joint operating agreement attached hereto as Exhibit "D".

4. **Representations and Warranties as to Title**. Empire represents and warrants that as of the date of this Letter Agreement its title to the Prospect Leases is free and clear from any prior conveyance, lien or encumbrance made or suffered by it, or by any person by, through or under it, which diminishes, limits or burdens the rights and interests that Assignee has the right to earn under this Letter Agreement. Empire further represents and warrants that until such time as the Non-Unit Leases, or any of them, are assigned to Assignee under the terms of this Letter Agreement, Empire will not make or suffer, or allow to be made or suffered by any person by though or under it, any conveyance, lien or encumbrance with respect to the Non-Unit Leases.

5. **Burdens**. All assignments under this Letter Agreement shall be subject to and burdened by the terms and conditions of this Letter Agreement, the Prospect Leases, the Paradise Unit Operating Agreement and the Paradise Unit Agreement (or, with respect to assignments of the Non-Unit Leases, a unit agreement substantially similar to the Paradise Unit Agreement if a unit is subsequently formed), and a proportionate part of all landowners' royalties, overriding royalty interests and similar interests of record as of the date of such assignment.

6. **Tag Along and Drag Along Rights**.

(a) **Tag Along**. For a period of [five] years from and after the Effective Date, in the event either Party (the "Transferring Party") desires to sell, assign, transfer or otherwise dispose of all or any portion of its interests in the Prospect, directly or indirectly, the Transferring Party shall promptly deliver to the other Party (the "Non-Transferring Party") written notice thereof, and the Non-Transferring Party shall have the right, but not the obligation, to elect to participate in the proposed transaction in proportion to Non-Transferring Party's interests in the Prospect as part of the proposed transaction at the same terms, conditions and valuation. The notice shall include the name of the proposed transferee, and all of the terms and conditions of the proposed transaction. The Non-Transferring Party shall deliver to the Transferring Party written notice of the Non-Transferring Party's election to participate in the proposed transaction on or before five days after the Non-Transferring Party's receipt of written of notice thereof from the Transferring Party. If the Non-Transferring Party fails to deliver its election within said time-period, the Non-Transferring Party shall be deemed conclusively to have elected not to participate in the proposed transaction hereunder. If the acquiring party in the proposed transaction is unwilling to acquire all of the interests offered, the Non-Transferring Party shall have the right to participate in the proposed transaction in the same ratio as the Non-Transferring Party's interest in the Prospect bears to the total interests in the Prospect to be transferred by both the Transferring Party and the Non-Transferring Party.

(b) **Drag Along**. If Empire receives a bona fide written offer (the "Purchase Offer") from a third party (the "Purchaser") to purchase all or substantially all of Empire's interest in the Prospect, and the Purchase Offer is acceptable in Empire's sole and absolute discretion, Empire shall have the right, but not the obligation, to cause Assignee (and their permitted assignee(s) or successors, if any) to sell all (but not less than all) of Assignee's interests in the Prospect in accordance with the terms and conditions of this Section 6(b) (the "Drag Along Right"). Empire shall elect to exercise the Drag Along Right by written notice (the "Drag Along Notice") delivered to Assignee on or before 30 days after receipt of the Purchase Offer. The Drag Along Notice shall include the name of the Purchaser, the purchase price (the "Purchase Price") and all of the material terms and conditions of the proposed transaction. If Empire elects to exercise the Drag Along Right, the closing of the transaction shall occur on or before 90 days after receipt of the Drag Along Notice under the circumstances described herein and, upon compliance with the terms and conditions thereof, Assignee shall sell to such Purchaser all of their interest in the Prospect. The closing of the Purchaser's acquisition of Empire's interest in the Prospect and Assignee's interest in the Prospect shall occur simultaneously and be conditioned upon each other.

7. **Miscellaneous**.

(a) **Successors and Assigns**. This Letter Agreement shall not be assigned by any Party without the prior written approval of the non-assigning Party, which approval shall not be unreasonably withheld, conditioned or delayed.

(b) **Headings**. Headings used in this Letter Agreement are inserted for convenience only and shall not affect the interpretation of any of the provisions of this Letter Agreement.

(c) **Relationship of Parties**. This Letter Agreement does not constitute the Parties as a partnership, mining partnership, mining partnership, joint venture, incorporated association or any other joint relationship, it being intended that liabilities and obligations of the Parties shall be several and not joint. Each Party shall be responsible only for its obligations and liabilities as set out herein and no Party shall be responsible for those of any other Party.

(d) **Further Assurances**. The Parties agree to execute such further instruments and documents and to diligently undertake such actions as may be necessary or appropriate in connection with the subject matter of this Letter Agreement and to take such other action as reasonably requested by a Party to give full force and effect to the terms and intent of this Letter Agreement.

(e) **Entire Agreement**. This Letter Agreement, including the Exhibits attached hereto, constitutes the entire agreement and understanding of the Parties hereto with respect to the transactions contemplated hereby, and supersedes all prior understandings, discussions and agreements between the Parties relating to the subject matter hereof. The Exhibits attached hereto are incorporated herein by reference.

(f) **Laws Governing This Agreement**. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

(g) **Binding Effect**. This Letter Agreement shall be binding upon and inure to the benefit of the Parties hereto, their respective heirs, successors and assigns.

(h) **Counterpart Execution**. This Letter Agreement may be executed in any number of counterparts, each of such shall be considered an original for all purposes.

(i) **Notices**. All notices or other communications required or permitted hereunder shall be provided in writing and shall be delivered to the authorized representative of the Parties set forth below, by either (i) personal delivery, (ii) certified mail, return receipt requested, (iii) overnight delivery service, or (iv) facsimile, as follows:

If to Empire:

Empire Petroleum Corporation
8801 South Yale, Suite 120
Tulsa, Oklahoma 74137-3575
Attn: A. E. Whitehead
Facsimile: (918) 488-1530

If to Assignee:

[_____]
[_____]
[_____]
Attn: [_____]
Facsimile: (___) [__]-[___]

Either Party may, upon written notice to the other Party, change the address and person to whom such communications are to be directed.

IN WITNESS WHEREOF, the Parties have executed and delivered this Letter Agreement effective as of the Effective Date.

EMPIRE PETROLEUM CORPORATION

By: /s/ Albert E. Whitehead
Albert E. Whitehead
President and Chief Executive Officer

[Assignee]

By: _____

Name: _____

Title: _____

EXHIBIT "A"

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

PARADISE UNIT AREA

COUNTIES OF NYE AND MINERAL

STATE OF NEVADA

TABLE OF CONTENTS

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

PARADISE UNIT AREA

COUNTIES OF NYE AND MINERAL

STATE OF NEVADA

NO._____

THIS AGREEMENT, entered into as of the 22nd day of January, 2010, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the unit area subject to this agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U. S.C. Sec. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a unit plan of development or operation of any oil and gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the Paradise Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below-defined unit area and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such

regulations are not inconsistent with the terms ofthis agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto, marked Exhibit "A," is hereby designated and recognized as constituting the unit area, containing 40,073.39 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" or "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as "AO" and not less than four copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office.

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to confonn with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper Bureau of Land Management office, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent infonnation, the expansion or contraction shall, upon approval by the AO, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all non-participating lands not then entitled to be in a participating area

shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the working interest in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the AO, provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. Cortez Exploration LLC is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. **RESIGNATION OR REMOVAL OF UNIT OPERATOR.** Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder,

but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

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

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the new duly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. **SUCCESSOR UNIT OPERATOR.** Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by the working interest owners, the owners of the working interests according to their respective acreage interests in all unitized land shall, pursuant to the Approval of the Parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

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

(b) the selection shall have been approved by the AO.

If no successor Unit Operator is selected and qualified as herein provided, the AO at his election may declare this unit agreement terminated.

7. **ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.** If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement". Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper Bureau of Land Management office, prior to approval of this unit agreement.

8. **RIGHTS AND OBLIGATIONS OF UNIT OPERATOR.** Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer

title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. **DRILLING TO DISCOVERY.** Within 6 months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until 500 feet below the top of the Triassic formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 6,000 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than 6 months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, Operator shall submit for the approval of the AO an acceptable plan of development and operation for the unitized land which, when approved by the AO, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO is

authorized to grant a reasonable extension of the 6 month period herein prescribed for submission of an initial plan of development and operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Unit Operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12, to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by Unit Operator and approved by the AO.

No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests. Royalties due the United States shall be determined by the AO and the amount thereof shall be deposited, as directed by the AO, until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land on which it is situated is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating and other production or development purposes, for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased Federal land, if any, included in the participating area established for such production. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land and unleased Federal land, if any, included in said participating area. There shall be allocated to the working interest owner(s) of each tract of unitized land in said participating area, in addition, such percentage of the production attributable to the unleased Federal land within the participating area as the number of acres of such unitized tract included in said participating area bears to the total acres of unitized land in said participating area, for the payment of the compensatory royalty specified in Section 17 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensatory royalty obligations under Section 17, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed by the affected parties. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any operator may, with the approval of the AO, at such party's sole risk, cost, and expense, drill a well on the unitized land to test any formation provided the well is outside any participating area established for that formation, unless within 90 days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled under this section by a non-unit operator results in production of unitized substances in paying quantities such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled under this section by a non-unit operator obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same, subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the non-unit operator in the case of the operation of a well by a non-unit operator as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by an operator responsible therefor under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the responsible parties of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of development and operation approved by the AO, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved

by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by the appropriate parties under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the responsible parties of the land from their respective obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE.

(a) The Unit Operator shall take such measures as the AO deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO.

(b) Whenever a participating area approved under Section 11 of this agreement contains unleased Federal lands, the value of 12-112 percent of the production that would be allocated to such Federal lands under Section 12 of this agreement, if such lands were leased, committed and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Parties to this agreement holding working interests in committed leases within the applicable participating area shall be responsible for such compensatory royalty payment on the volume of production reallocated from the unleased Federal lands to their unitized tracts under Section 12. The value of such production subject to the payment of said royalties shall be determined pursuant to 30 CFR Part 206. Payment of compensatory royalties on the production reallocated from unleased Federal land to the committed tracts within the participating area shall fulfill the Federal royalty obligation for such production, and said production shall be subject to no further Federal royalty assessment under Section 14 of this agreement. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area that includes unleased Federal land receive a production allocati :m, and shall be due and payable monthly by the last day of the

calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development, or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation oflands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be

extended for two years, and so long thereafter as oil or gas is produced in paying quantities in

accordance with the provisions of the Mineral Leasing Act, as amended.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17(m) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (m)): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities." If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 CFR 3107.3-2 and 43 CFR 3107.4, respectively, shall not be effective.

(h) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump-sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval of the AO and shall automatically terminate five (5) years from said effective date unless:

(a) upon application by the Unit Operator such date of expiration is extended by the AO, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such

ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with approval of the AO, or

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling or reworking operations to restore production or new production are not in progress within 60 days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred, or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO. The Unit Operator shall give notice of any such approval to all parties hereto. If the public interest requirement is not satisfied, the approval of this unit by the AO shall be invalid.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any Statewide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

Powers in this section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

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

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or

parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing herein contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where the unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in the open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended, which are hereby incorporated by reference in this agreement.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interest subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal lands or leases, no payments of funds due the United States shall be withheld, but such funds shall be deposited as directed by the AO, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office and the Unit Operator prior to the approval of this agreement by the AO. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as

may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

30. SPECIAL SURFACE STIPULATIONS. Nothing in this agreement shall modify the special Federal lease stipulations attached to the individual Federal oil and gas leases.

31. SURRENDER. Nothing in this Agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this Agreement.

If as a result of any surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the Unitized Substances, said party may forfeit such rights and further benefits from operations hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If as the result of any such surrender of forfeiture working interest rights become vested in the fee owner of the Unitized Substances, such owner may:

(a) Accept those working interest rights subject to this Agreement and the Unit Operating Agreement; or

(b) Lease the portion of such land as is included in a participating area established hereunder subject to this Agreement and the Unit Operating Agreement; or

(c) Provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the Unitized Substances does not accept the working interest rights subject to this Agreement and the Unit Operating Agreement or lease such lands as above provided

within 6 months after the surrendered or forfeited, working interest rights become vested in the fee owner; the benefits and obligations of operations accruing to such lands under this Agreement be shared by the remaining owners of the unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of Unitized Substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interests subsequent to the date of surrender of forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within 30 days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

32. TAXES. The working interest owners shall render and pay for their account and the

account of the royalty owners all valid taxes on or measured by the Unitized Substances in and under or that may be produced, gathered and sold from the land covered by this Agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interests in said tract, and may currently retain and deduct a sufficient amount of the Unitized Substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of Nevada or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

33. **NO PARTNERSHIP.** It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this Agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

* * * The balance of this page is left blank intentionally* * *

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

UNIT OPERATOR AND WORKING INTEREST OWNER

CORTEZ EXPLORATION, LLC

By: /s/Otto F. Duffield
Otto F. Duffield

Address: 16786 Kincheloe Road
Siloam Springs, Arkansas 72761

Date of Execution

February 4, 2010

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me by OTTO F. DUFFIELD

as MANAGER

of Cortez Exploration, LLC.

This 4TH day of FEBRUARY, 2010.

WITNESS my hand and official seal.

My Commission Expires:

DECEMBER 4, 2010 /s/ Gale L. Staton
Notary Public

UNIT OPERATOR SIGNATURE PAGE FOR THE
PARADISE UNIT AGREEMENT
NYE AND MINERAL COUNTIES, NEVADA

EXHIBIT "B"

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY AND %	LESSEE OF RECORD	AND %	OVERRIDING ROYALTY	AND %	WORKING INTEREST	AND %
1	T12N-R34E MOM Sec. 1: Lots 1, 2, 3, 4, S/2N/2, S/2 (All) Sec. 12: All Sec. 13: All Sec. 24: All Sec. 25: All Sec. 36: All	3,840.56	N-59901 EFFECTIVE 9/1/1995 Expires 11/28/2010*	U.S.A.-ALL (12.5% ROYALTY) *Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek TOTAL	2.50% 1.00% 1.00% 1.00% 1.00% 1.00% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
2	T13N-R35E MDM Sec. 10: All Sec. 11: All Sec. 16: NW/4	1,440.00	N-60807 Effective 6/1/1997 Expires 11/28/2010*	U.S.A.-ALL (12.5% ROYALTY) *Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek Shawn L. Messinger Elizabeth M. Murphy TOTAL	1.50% 1.00% 1.00% 1.00% 1.00% 1.00% 0.50% 0.50% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
3	T12N-R34E MDM 2 Lots 1, 2, S/2NE/4, SE/4 Sec. 10: E/2 Sec. 11: All Sec. 14: All Sec. 15: All Sec. 21: All Sec. 22: All Sec. 23: All Sec. 26: All Sec. 27: All Sec. 28: NE/4, NE/4NW/4, S/2SW/4, E/2SE/4 Sec. 33: E/2NE/4, NW/4 Sec. 34: All Sec. 35: All	7,040.17	N-60812 Effective 6/1/1996 Expires 11/2/2010*	U.S.A.-ALL (12.5% ROYALTY) *Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek TOTAL	2.50% 1.00% 1.00% 1.00% 1.00% 1.00% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
4	T13N-R35E MDM Sec. 17 All Sec. 19 E/2	960.00	N-60815 Effective 6/1/1996 Expires 11-28-2010.	U.SA- All (12.5% royalty) •Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punta De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek TOTAL	2.50% 1.00% 1.00% 1.00% 1.00% 1.00% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
5	T13N-R35E MDM Sec. 2: All Sec. 3: All Sec. 4: All Sec. 9: All	2,560.00	N-60816 Effective 6/1/1996 Expires 11-28-2010.	U.SA- All (12.5% royalty) •Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punta De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek TOTAL	2.50% 1.00% 1.00% 1.00% 1.00% 1.00% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
6	T12N-R35E MOM Sec. 29 All Sec. 30 Lots 1, 2, 3, 4, E/2, E/2W/2 (All) Sec 31 Lots 1, 2, 3, 4, E/2, E/2W/2 (All)	1,908.16	N-60885 Effective 9/1/1995 Expires 11/28/2010*	U.SA- All (12.5% royalty) •Extended by the termination of the Cobble Cuesta Unit Agreement	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punta De Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%	O. F. Duffield Frances A. Duffield Johnson Valorie S. Duffield Reynolds James P. Duffield Otto F. Duffield II Alfred H. Pekarek TOTAL	2.50% 1.00% 1.00% 1.00% 1.00% 1.00% 7.50%	Cortez Exploration LLC Empire Petroleum Corporation Windmill Oil & Gas LLC Punto De. Luz, LLC TOTAL	85.50% 10.00% 2.50% 2.00% 100.00%
7	T12N-R34E MOM Sec 2 Lots 3, 4, S/2NW/4, SW/4	319.43	N-82193 Effective 9/1/2006 Expires 8/31/2016	U.SA- All (12.5% royalty)	Cortez Exploration LLC	100.00%	Alfred H. Pekarek	1.00%	Coretez Exploration LLC	100.00%
8	T13N-R34E MOM Sec 25 All (Protracted) Sec. 36 All (Protracted)	1,284.00	N-82185 Effective 9/1/2006 Expires 8/31/2016	U.SA- All (12.5% royalty)	Cortez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%	Alfred H. Pekarek	1.00%	Coretez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%
9	T13N-R35E MOM Sec 8. All (Protracted)	640.00	N-82186 Effective 9/1/2006 Expires 8/31/2016	U.SA- All (12.5% royalty)	Cortez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%	Alfred H. Pekarek	1.00%	Coretez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%
10	T13N-R35E MOM Sec. 19. W/2 (Protracted)	220.00	N-82187 Effective 9/1/2006 Expires 8/31/2016	U.SA- All (12.5% royalty)	Cortez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%	Alfred H. Pekarek	1.00%	Coretez Exploration LLC Punto De Luz TOTAL	98.00% 2.00% 100.00%
11	T12N-R35E MOM Sec 5 Lots 1, 2, 3, 4, S/2N/2, S/2 (All) Sec 6 Lots 1, 2, 3, 4, 5, 6, 7, S/2NE/4, SE/4NW/4 E/2SW/4, SE/4 (All) Sec 7 Lots 1, 2, 3, 4, E/2W/2, E/2 (All) Sec 8 All	2,538.67	N-85867 Effective 11/1/2008 Expires 10/31/2018	U.SA- All (12.5% royalty)	Empire Petroleum Corporation	100.00%	Alfred H. Pekarek	1.00%	Empire Petroleum Corporation	100.00%
12	T12N-R35E MOM Sec 17. All Sec 18 Lots 1, 2, 3, 4, E/2, E/2W/2 (All) Sec. 19: Lots 1,2,3,4, E/2, E/2W/2 (All) Sec 20 All	2,544.24	N-85871 Effective 11/1/2008 Expires 10/31/2018	U.SA- All (12.5% royalty)	Empire Petroleum Corporation	100.00%	Alfred H. Pekarek	1.00%	Empire Petroleum Corporation	100.00%
13	T13N-R35E MOM Sec. 16 E/2, SW/4, (Protracted) Sec. 20 All (Protracted) Sec. 21: All (Protracted) Sec. 22: All (Protracted)	2,400.00	N-85873 Effective 11/1/2008 Expires 10/31/2018	U.SA- All (12.5% royalty)	Empire Petroleum Corporation	100.00%	Alfred H. Pekarek	1.00%	Empire Petroleum Corporation	100.00%
14	T13N-R35E MOM Sec 29 All (Protracted) Sec. 30 All (Protracted) Sec 31 All (Protracted) Sec 32 All (Protracted)	2,461.00	N-85876 Effective 11/1/2008 Expires 10/31/2018	U.SA- All (12.5% royalty)	Empire Petroleum Corporation	100.00%	Alfred H. Pekarek	1.00%	Empire Petroleum Corporation	100.00%
15	T12N-R35E MOM Sec 9 All Sec 10 All	1,280.00	N-86963 Effective 12/1/2009 Expires 11/30/2019	U.SA- All (12.5% royalty)	James Henry Henderson	100.00%	NONE		James Henry Henderson	100.00%
16	T12N-R35E MOM Sec 16 All Sec 21 All	1,280.00	N-86965 Effective 12/1/2009 Expires 11/30/2019	U.SA- All (12.5% royalty)	James Henry Henderson	100.00%	NONE		James Henry Henderson	100.00%
17	T12N-R35E MOM Sec. 3 Lots 1, 2, 3, 4, S/2N/2, S/2 (All) Sec. 4 Lots 1, 2, 3, 4, S/2N/2, S/2 (All)	1,277.16	N-86972 Effective 11/1/2009 Expires 10/31/2019	U.SA- All (12.5% royalty)	Nancy Fagen	100.00%	NONE		Nancy Fagen	100.00%
18	T13N-R35E MOM Sec. 14 All (Protracted) Sec 15 All (Protracted) Sec 23 All (Protracted)	1,920.00	N-86998 Effective 11/1/2009	U.SA- All (12.5% royalty)	Cortez Exploration LLC	100.00%	NONE		Cortez Exploration LLC	100.00%

			Expires 10/31/2019						
19	T13N-R35E MOM Sec 26 All (Protracted) Sec. 35 All (Protracted)	1,280.00	N-86999 Effective 11/1/2009 Expires 10/31/2019	U.SA- All (12.5% royalty)	Cortez Exploration LLC	100.00%	NONE	Cortez Exploration LLC	100.00%
20	T13N-R35E MOM Sec 27 All (Protracted) Sec 28 All (Protracted) Sec 33 All (Protracted) Sec 34 All (Protracted)	2,560.00	N-87000 Effective 11/1/2009 Expires 10/31/2019	U.SA- All (12.5% royalty)	Cortez Exploration LLC	100.00%	NONE	Cortez Exploration LLC	100.00%
21	T12N-R34E MOM Sec. 10 W/2	320.00	Unleased	U.SA- All (12.5% royalty)	Unleased	100.00%	NONE	Unleased	100.00%

21	FEDERAL TRACTS	TOTALING	40,073.39 ACRES	OR	100% OF UNIT AREA

21	TRACTS	TOTALING	40073.39 ACRES	IN	UNIT AREA

NOTE: PENDING ASSIGNMENTS ON TRACTS 1-20 WILL RESULT IN AN OWNERSHIP OF: EMPIRE PETROLEUM CORPORATION, 57%; CORTEZ EXPLORATION LLC, 38.5%; WINDMILL OIL & GAS LLC, 2.5%, AND, PUNTO DE LUZ, LLC, 2%

EXHIBIT "C"

NON-UNIT ACREAGE

LEASE SERIAL NUMBER	EFFECTIVE DATE	ACREAGE	DESCRIPTION
N-60885	9/1/1995	4,480.00	Twp: 12N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 13: All Section 23: All Section 24: W/2 Section 26: NW/4 Section 27: All Section 28: All Section 32: All Section 33: All Section 34: NW/4
N-60812	6/1/1996	2,844.99	Twp: 11N Rge: 34E Meridian: MDM State: Nevada County: Nye & Mineral Section 1: Lots 3-4, S/2NW/4, SW/4 Section 2: Lots 1-4, S/2N/2, S/2 Section 3: Lots 1-4, S/2N/2, S/2 Section 4: Lots 1-4, S/2N/2, S/2
N-60816	6/1/1996	3,520.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 1: All Section 12: All Section 13: E/2 Twp: 13N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 18: All Section 19: All Section 29: All
N-60792	6/1/1996	5,461.37	Twp: 12N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 4: Lots 1-4, S/2N/2, S/2 Section 5: Lots 1 & 2, S/2NE/4, E/2SE/4 Section 6: Lots 1-7, SW/4NE/4, SE/4NW/4, E/2SW/4 Section 7: Lots 1-4, E/2W/2, SW/4NE/4, SE/4 Section 8: S/2S/2, N/2SE/4 Section 17: All Section 18: Lots 1-4, E/2W/2, E/2 Section 19: Lots 1-4, E/2W/2, E/2 Section 20: N/2NE/4, NW/4 Section 30: Lots 1-4, E/2W/2, E/2 Section 31: Lots 1-4, E/2W/2, E/2
N-60791	9/1/1996	3,200.00	Twp: 12N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 24: E/2 Section 25: ALL Section 26: SW/4, E/2 Section 34: SW/4, E/2 Section 35: All Section 36: All
N-60793	6/1/1997	1,920.00	Twp: 13N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 30: All Section 31: All Section 32: All
N-60808	6/1/1997	2,553.43	Twp: 11N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 1: Lots 1-4, S/2N/2, S/2 Section 2: Lots 1-4, S/2N/2, S/2 Section 3: Lots 1-4, S/2N/2, S/2 Twp: 11N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 6: Lots 1-7, S/2NE/4, SE/4NW/4, E/2SW/4, SE/4
N-60807	6/1/1997	320.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 13: W/2

N-60806	6/1/1997	2,235.70	Twp: 11N Rge: 34E Meridian: MDM State: Nevada County: Nye Section 1: Lots 1 & 2, S/2NE/4, SE/4 (E/2) Twp: 11N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 4: Lots 1-4, S/2N/2, S/2 Section 5: Lots 1-4, S/2N/2, S/2 Section 6: Lots 1-7, S/2NE/4, SE/4NW/4, E/2SW/4, SE/4
N-82180	9/1/2006	1,274.33	Twp: 11N Rge: 34E Meridian: MDM State: Nevada County: Mineral Section 5: Lots 1-4 Section 5: S/2N/2, S/2 Section 6: Lots 1-7 Section 6: S/2NE/4, SE/4NW/4, E/2SW/4, SE/4
N-82181	9/1/2006	2,560.00	Twp: 11N Rge: 34E Meridian: MDM State: Nevada County: Mineral Section 9: All Section 10: All Section 15: All Section 16: All
N-82182	9/1/2006	2,560.00	Twp: 11N Rge: 34E Meridian: MDM State: Nevada County: Mineral Section 11: All Section 12: All Section 13: All Section 14: All
N-82183	9/1/2006	1,279.04	Twp: 12N Rge: 34E Meridian: MDM State: Nevada County: Nye Section 3: Lots 1-4 Section 3: S/2N/2, S/2 Section 4: Lots 1-4 Section 4: S/2N/2, S/2
N-82184	9/1/2006	680.00	Twp: 12N Rge: 34E Meridian: MDM State: Nevada County: Mineral Section 28: W/2NW/4, SE/4NW/4, N/2SW/4, W/2SE/4 Section 33: W/2NE/4, S/2
N-82185	9/1/2006	643.00	Twp: 13N Rge: 34E Meridian: MDM State: Nevada County: Nye Section 24: Prot All
N-82186	9/1/2006	1,715.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 5: Prot All Section 6: Prot All Section 7: Prot All
N-82187	9/1/2006	540.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 18: Prot All
N-82188	9/1/2006	1,916.92	Twp: 11N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 4: Lots 1, 3-12 Section 4: S/2N/2, S/2 Section 5: Lots 1-4 Section 5: S/2N/2, S/2 Section 7: Lots 1-4 Section 7: E/2, E/2W/2
N-82189	9/1/2006	2,476.04	Twp: 11N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 8: All Section 9: All Section 17: All Section 18: Lots 1-4 Section 18: NE/4, E/2W/2, E/2SE/4
N-82190	9/1/2006	640.00	Twp: 11N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 16: All
N-82191	9/1/2006	1,119.60	Twp: 12N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 5: Lots 3-4 Section 5: S/2NW/4, SW/4, W/2SE/4 Section 6: SE/4NE/4, SE/4

			Section 7: N/2NE/4, SE/4NE/4 Section 8: N/2, N/2SW/4
N-82192	9/1/2006	1,280.00	Twp: 12N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 9: All Section 16: All
N-82446	10/1/2006	2,000.00	Twp: 12N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 20: S/2NE/4, S/2 Section 21: All Section 28: W/2NE/4, NW/4, W/2SW/4 Section 29: All
N-82194	9/1/2006	730.00	Twp: 12N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 32: N/2, SW/4, W/2SE/4, SE/4SE/4 Section 32: W/2NE/4, SE/4 Section 33: S/2SW/4 Section 33: W/2NE/4SW/4, SE/4NE/4SW/4
N-82195	9/1/2006	2,560.00	Twp: 13N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 4: Prot All Section 9: Prot All Section 16: Prot All Section 17: Prot All
N-82196	9/1/2006	2,560.00	Twp: 13N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 5: Prot All Section 6: Prot All Section 7: Prot All Section 8: Prot All
N-82197	9/1/2006	1,920.00	Twp: 13N Rge: 36E Meridian: MDM State: Nevada County: Nye Section 21: Prot All (Excl Me Patent) Section 28: Prot All (Excl Me Patent) Section 33: Prot All (Excl Me Patent)
N-86998	11/01/2009	640.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 24: Prot All
N-86999	11/01/2009	1,280.00	Twp: 13N Rge: 35E Meridian: MDM State: Nevada County: Nye Section 25: Prot All Section 36: Prot All

TOTAL NON-UNIT ACREAGE

56,909.42

TOTAL UNIT ACREAGE

35,916.23

PARADISE UNIT ACREAGE TOTAL

EMPIRE, ET AL	35,916,23
JAMES HENDERSON	2,560.00
NANCY FAGEN	1,277.16
UNLEASED	320.00
TOTAL UNIT ACREAGE	**40,073.39**

EXHIBIT "D"

UNIT OPERATING AGREEMENT

PARADISE UNIT AREA

COUNTIES OF MINERAL AND NYE

STATE OF NEVADA

TABLE OF CONTENTS

NOTE: Attention is called to pages 1, 6, 10, 11, 13, 14, 15, 16, and 19, which contain blanks to be filled in.

UNIT OPERATING AGREEMENT

PARADISE UNIT AREA

THIS AGREEMENT made as of the day of , 2010, by and among the parties who by and among the parties who execute or ratify this Agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE PARADISE AREA, Counties of Mineral and Nye State of Nevada , dated as of the day of , 2010, and hereinafter referred to as the "Unit Agreement", covering the lands described in EXHIBIT B thereto attached, which lands are referred to in the Unit Agreement and in this Agreement as the "Unit Area"; and

WHEREAS, the Parties enter into this Agreement pursuant to Section 7 of the Unit Agreement,

NOW, THEREFORE, in consideration of the covenants herein contained, it is agreed as follows:

ARTICLE 1
DEFINITIONS

1.1 Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this Agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this Agreement:

"Unit Operator" means Cortez Exploration LLC and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of a Committed Working Interest.

"Party" means a party to this Agreement, including the Party acting as Unit Operator when acting as an owner of a Committed Working Interest.

"Drilling Party", "Completing Party", and "Participating Party" all mean the Party or Parties obligated to bear Costs incurred in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well at the commencement of such operation.

"Non-Drilling Party", "Non-Completing Party", and "Non-Participating Party" all mean the Party or Parties who had the optional right to participate in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well and who elected not to participate therein.

"Committed Working Interest" means a working interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this Agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

"Acreage Basis", when used to describe the basis of participation by the Parties within the Unit Area, a participating area. or other area designated pursuant to this Agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the Committed Working Interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided Committed Working Interests in a tract, there shall be apportioned to each such Committed Working Interest that proportion of the acreage of the tract that such Committed Working Interest bears to the entire Committed Working Interest in the tract.

"Production" means all unitized substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this Agreement.

"Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this Agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the Accounting Procedure attached hereto as Exhibit 1, which shall govern in all matters covered thereby, except that in the event of an inconsistency between said Accounting Procedure and this Agreement, this Agreement shall control.

"Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment, and any similar burden, but does not include a carried working interest, a net profits interest, or any other interest which is payable out of profits.

"Drill" means to perform all operations reasonably necessary and incident to the drilling of a well to its projected depth, including preparation of roads and drill site, testing, and logging, but excluding Completion operations.

"Complete" means to perform all operations reasonably necessary and incident to the completion of a well, commencing with the running and setting of the production pipe and, if productive of unitized substances, equipping through the wellhead connections, or plugging and abandoning, if dry.

"Equip" means to perform all operations reasonably necessary and incident to the equipping of a well for production beyond the wellhead connections.

"Deepen" or "Plug Back" means to perform all operations reasonably necessary and incident to Drilling a well below its original projected depth or plugging back a well to a depth above its original projected depth, testing, and logging, but excluding Completing and Equipping operations.

"Initial Test Well" means the test well or wells provided for in Section 9 of the Unit Agreement and in Exhibit 2 attached hereto.

"Subsequent Test Well" means a test well Drilled after the Drilling of the Initial Test Well and before discovery of unitized substances in Paying Quantities in the Unit Area.

"Development Well" means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

“Exploratory Well" means a well (other than a Development Well) Drilled after discovery of unitized substances in Paying Quantities in the Unit Area.

"Approval of the Parties" or "Direction of the Parties" means an approval, authorization, or direction which receives the affirmative vote of the Parties entitled to vote on the giving of such Approval or Direction, as specified in Section 14.2.

"Salvage Value" of a well means the value of the materials and equipment in or appurtenant to the well, determined in accordance with Exhibit 1, less the reasonably estimated Costs of salvaging the same and plugging and abandoning the well.

"Appropriate Agency" means the agency designated in the applicable Federal Regulations, including any person acting under the authority thereof.

"Paying Quantities" means paying quantities as defined in Section 9 of the Unit Agreement.

Other Definitions:

ARTICLE 2
EXHIBITS

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

Exhibit 1. Accounting Procedure.
Exhibit 2. Initial Test Well.
Exhibit 3. Insurance.
Exhibit 4. Non-Discrimination.
Exhibit 5. Oil and Gas Lease.

In the event of a conflict or inconsistency between the provisions of an Exhibit and the provisions of this Agreement, the provisions of this Agreement shall control.

ARTICLE 3
INITIAL TEST WELL

3.1 Location. Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement, or any extension thereof, at the location specified in Exhibit 2.

3.2 Costs of Drilling. Subject to the investment adjustment provisions of Article 13, the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in Exhibit 2.

ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be upon such terms and conditions as may be agreed to by the Parties; provided, however, that in the absence of agreement, such well may be Drilled under the provisions of Article 9.

ARTICLE 5
ESTABLISHMENT, REVISION, AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least twenty (20) days before filing the same with the Appropriate Agency. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Appropriate Agency.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60)

days from submission of the first proposal, then Unit Operator shall file with the Appropriate Agency a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 Rejection of Proposal. If a proposal filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6
APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Articles 8, 9, 11, and 12:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of unitized substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis, determined as of the time such Costs are incurred.

B. Production. All Production from a participating area shall be allocated on an Acreage Basis to the tracts of unitized land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon and as if this Agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment, and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area, shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 Ownership and Costs Outside Participating Area. If a well Drilled (including the Deepening or Plugging Back thereof) within a Drilling Block established under the provisions of either

Article 9 or Article 10 is completed as a producer but not included within a participating area, then the following provisions shall be applicable:

A. When All Drilling Block Parties Participate. If all Parties within the Drilling Block shall have elected to participate in Drilling and Completing such well, then said well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by such Parties; and all Costs incurred in the operation of such well and all Lease Burdens payable in respect of Production from such well shall be borne and paid by said Parties. Apportionment among said Parties of ownership, Costs, and Lease Burdens shall be in the same proportions in which Costs incurred in Drilling the well were borne.

B. When Less Than All Drilling Block Parties Participate. If any Party within the Drilling Block shall have elected not to participate in Drilling or Completing such well, then the provisions of Article 12 shall be applicable thereto; and the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.4 with respect to a well which results in the establishment or enlargement of a participating area, except that the proceeds or market value to be used in determining when such reversion shall occur shall be the proceeds or market value (after making the deductions provided for in Section 12.4) of that portion of the Production obtained from the well which, had the Non-Drilling Party elected to participate in the Drilling or Completing thereof, would have been allocable, on an Acreage Basis within the Drilling Block, to the Non-Drilling Party. Upon reversion of the relinquished interest of the Non-Drilling Party in such well, the provisions of Section 12.5 shall become applicable.

6.3 Cost Liability of Subsequently Created Interests. Anything herein to the contrary not withstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this Section 6.3 and of Section 12.9. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed Working Interest; and Unit Operator shall have the right to enforce against such Subsequently Created Interest the lien and all other rights granted in Section 15.5 for the purpose of collecting Costs chargeable to the Subsequently Created Interest.

6.4 Taking in Kind. Each Party shall currently, as produced, take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5, each Party shall be entitled to receive directly all proceeds from the sale of its share of Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

6.5 Failure to Take in Kind. Should any Party fail to take in kind or separately dispose of its share of Production, the Party acting as Unit Operator shall have the right, revocable at will by the Party owning such share, to purchase such share for its own account at not less than the market price

receives for its own share of Production; provided that all such sales shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but not to exceed one (1) year. Notwithstanding the foregoing, Unit Operator shall not sell or commit any Party's share of gas Production to a sale without first giving such Party not less than ninety (90) days written notice.

6.6 Surplus Materials and Equipment. Materials and equipment owned by the Parties or by any of them pursuant to this Agreement may be classified as surplus by Unit Operator when deemed bv it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by notice given to Unit Operator within thirty *(30)* days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars ($7,500.00).

B. Surplus materials and equipP1ent not divided in kind, other than junk and any item (other than tubular goods) having a replacement cost of less than Seven Thousand Five Hundred Dollars ($7,500.00), shall be sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this Section shall be disposed of as provided in Exhibit 1.

ARTICLE 7
PLANS OF DEVELOPMENT

7.1 Submittal of Plans. Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the Appropriate Agency in accordance with the Unit Agreement and the further provisions of this Article.

7.2 Proposal. Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at least thirty (30) days before filing the same with the Appropriate Agency. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

7.3 Objections to Plan. Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the Appropriate Agency.

7.4 Revised Plan. If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the Appropriate Agency a plan reflecting as nearly as practicable the various views expressed by the Parties.

7.5 Rejection of Plan. If a plan filed by Unit Operator as above provided is rejected by the Appropriate Agency, Unit Operator shall initiate a new plan in the same manner as provided in Section. 7.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

7.6 Notice of Approval or Disapproval. If and when a plan has been approved or disapproved by the Appropriate Agency, Unit Operator shall give prompt notice thereof to each Party.

7.7 Supplemental Plans. If any Party or Parties shall have elected to proceed with a ·Drilling, Deepening, or Plugging Back operation in accordance with the provisions of this Agreement, and such operation is not provided for in the then current plan of development approved by the Appropriate Agency, Unit Operator shall either (a) submit to the Appropriate Agency for approval a supplemental plan providing for the conduct of such operation or (b) request the Appropriate Agency to consent to such operation, if such consent is sufficient.

7.8 Cessation of Operations Under the Plan. If any plan approved by the Appropriate Agency provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the Appropriate Agency.

ARTICLE 8
DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling and Completing a Development Well.

8.2 Drilling. The Drilling of a Development Well shall be pursuant to the procedure herein set forth.

A. Approval Required. The Drilling of a Development Well shall be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of a Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof but shall mean only that such Party

considers the Drilling of the well to be consistent with the efficient and economic development of the participating area involved and has no objection to the Drilling thereof.

B. Notice of Proposed Drilling. Subject to the provisions of Subdivision A of this Section 8.2, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area notice, specifying the location, depth, and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern then existing or an approved exception thereto.

C. Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 30-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within such participating area advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

D. Notice of Election to Proceed. Unless all Parties within the participating area agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 30-day period specified in Subdivision C of this Section 8.2, each Party within the participating area then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

E. Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who had not previously elected to participate therein may do so by notice given to Unit Operator at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

F. Effect of Election. If one or more, but not all, of the Parties within the participating area elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among them selves, or on such other basis as said Parties may specify.

G. Rights and Obligations of Drilling Party and Non-Drilling Party. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 shall be applicable to such operation.

8.3 Attempted Completion. The attempted Completion of Development Wells Drilled to their projected depths shall be governed by the following provisions:

A. Notice by Unit Operator. After a Development Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

B. Right to Attempt Completion. Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 8.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

D. Election. If a proposal to Complete is initiated, each Drilling Party shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

E. Effect of Election. The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

F. Rights and Obligations of Completing Party and Non-Completing Party. Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

G. Notice Prior to Plugging. Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

ARTICLE 9
EXPLORATORY WELLS

9.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling and Completing an Exploratory Well.

9.2 Drilling. The Drilling of an Exploratory Well shall be pursuant to the procedure herein set forth.

A. Notice of Proposed Drilling. Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed 960 acres, which, on the basis of available geological information, will, in its judgment, be proved productive by the Drilling of such well. Unit Operator and each Party

within the Drilling Block shall be furnished with a plat and description of the area so designated, together with notice of the location, objective formation, estimated depth, and estimated cost of the proposed well. The location of the proposed we II shall conform to any applicable spacing pattern then existing or an approved exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be Drilled thereon nor any land included in a proposal therefor filed with the Appropriate Agency nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and, if the actual Drilling of a well is commenced thereon within such period, until either:

(1) the Completion of the well, if it is completed otherwise than as a producer of unitized substances in Paying Quantities, either at its original projected depth or, if Deepening or Plugging Back operations are conducted, at any other projected depth; or

(2) the filing with the Appropriate Agency of a proposal for the establishment or revision of a participating area if the Completion of the well results in the filing of such proposal.

B. Basis of Participation. Each Party within the Drilling Block shall be entitled to participate in the Costs of Drilling the proposed well on an Acreage Basis but shall be required to do so only if it notifies the other Parties within the Drilling Block of its willingness so to participate, as hereinafter in this Article 9 provided.

C. Exclusion of Land From Proposed Drilling Block. Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block, as reduced by the exclusion of such land, shall be established as the Drilling Block. In the absence of any such Direction, then, at the expiration of said 30-day period, the proposed Drilling Block shall be established as the Drilling Block.

D. Preliminary Notice to Join in Drilling. Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall advise all other Parties therein whether or not it wishes to participate in Drilling the proposed well. If any Party fails to give such advice within said 10-day period, it shall be deemed to have elected not to participate in Drilling the proposed well. If all Parties within the Drilling Block advise that they wish to participate in Drilling the proposed well, then Unit Operator shall Drill the well for the account of all such Parties.

E. Notice of Election to Proceed. Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 10-day period specified in Subdivision D of this Section 9.2, each Party within the Drilling Block then desiring to have the proposed well Drilled shall give to all other Parties therein notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

F. Subsequent Election. If election to Drill the proposed well is made, any Party within the Drilling Block who had not previously elected to participate therein may do so by notice given to all other Parties within the Drilling Block at any time before the well is spudded, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

G. Effect of Election. If one or more, but not all, of the Parties within the Drilling Block elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

H. Rights and Obligations of Drilling Party and Non-Drilling Party. Whenever an Exploratory Well is Drilled otherwise than for the account of all Parties within the Drilling Block involved, the provisions of Article 12 shall be applicable to such operation.

9.3 Attempted Completion. The attempted Completion of Exploratory Wells Drilled to their projected depths shall be governed by the following provisions:

A. Notice by Unit Operator. After an Exploratory Well has reached its projected depth and has been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

B. Right to Attempt Completion. Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 9.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

D. Election. If a proposal to Complete is initiated, each Party entitled to participate in the Completion attempt shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

E. Effect of Election. The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

F. Rights and Obligations of Completing Party and Non-Completing Party. Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

G. Notice Prior to Plugging. Before plugging and abandoning any Exploratory Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

ARTICLE 10
REQUIRED WELLS

10.1 Definition. For the purpose of this Article, a well shall be deemed a Required Well if the Drilling thereof is required by a final order of the Appropriate Agency. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each Party. If any such order is appealed, the Party appealing shall give prompt notice thereof to Unit Operator and to each of the other Parties, and, upon final disposition of the appeal, Unit Operator shall give each Party prompt notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or to participate in the Drilling of, a Required Well shall give to Unit Operator notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with such order. If such notice is given within said period, Unit Operator shall Drill the Required Well for the account of the Party or Parties giving such notice; provided, however, if the Required Well is a Development Well, it shall not be Drilled unless it receives the Approval of

the Parties within the participating area involved. All rights and obligations with respect to the ownership of such well, the operating rights therein, the Production therefrom, and the bearing of Costs incurred therein shall be the same as if the well had been Drilled under Article 8, if the same is a Development Well, or under Article 9, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a Required Well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make a reasonable effort to effect such contraction; or

C. Termination. If the Required Well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the Required Well under whichever of the following provisions is applicable:

A. Development Well. If the Required Well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. Exploratory Well. If the Required Well is an Exploratory Well, the Drilling Block for such well shall consist of all forty (40) acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within any participating area theretofore

established for the pool or zone to which the well is to be Drilled. Unit Operator shall Drill such well for the account of all the Parties owning Committed Working Interests within the Drilling Block, on an Acreage Basis among themselves; and no such Party shall have the right to elect not to participate in the Drilling of said well.

ARTICLE 11
DEEPENING, PLUGGING BACK, AND ABANDONMENT

11.1 Attempted Deepening or Plugging Back. The attempted Deepening or Plugging Back of wells not completed as producers of unitized substances at their original projected depths shall be governed by the following provisions of this Section 11.1 and by the provisions of Section 11.2, unless every Party entitled to the notice provided for in Subdivision A of this Section 11.1 has consented to the plugging and abandonment of such well:

A. Notice by Unit Operator. Before abandoning any well which has been Drilled to its original projected depth but not completed as a producer of unitized substances, Unit Operator shall give notice of its intention to plug and abandon such well to each Drilling Party and Non-Drilling Party.

B. Right to Initiate Proposal. Each Party who participated in the Drilling of a well concerning which notice is gl ven in accordance with Subdivision A of this Section 11.1 and any other Party owning a Committed Working Interest in the tract of land on which the well is located may initiate a proposal to attempt to Deepen or Plug Back such well; provided, however, if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located.

C. Right to Participate. In order to be entitled to participate in a Deepening or Plugging Back operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling Block theretofore established for Drilling the well involved; if no Drilling Block was theretofore established for Drilling such well, the Drilling Block for such Deepening or Plugging Back operation shall be established automatically in accordance with the provisions of Subdivision B of Section 10.4, which shall be applicable hereto.

D. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of the notice given pursuant to Subdivision A of this Section 11.1 shall be allowed within which a Party entitled to do so may initiate a proposal to Deepen or Plug Back. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation. If no such proposal is initiated within said period, Unit Operator shall plug and abandon the well for the account of the Completing Party if a Completion attempt was made or, if not, then for the account of the Drilling Party.

E. Election. If a proposal to Deepen or Plug Back a well is initiated, each Party entitled to participate in the operation proposed shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the proposed operation.

F. Effect of Election. The Party or Parties electing to participate in an operation to Deepen or Plug Back a well as above provided shall constitute the Participating Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Participating Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Participating Party, on an Acreage Basis among themselves, subject, however, to the provisions of Section 11.2 and Section 11.3. If the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging and abandoning the well shall be charged and borne as part of the Costs incurred in Drilling the well.

G. Rights and Obligations of Participating Party and Non-Participating Party. Upon the commencement of a Deepening or Plugging Back operation otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 shall be applicable to such operation.

11.2 Deepening or Plugging Back to Participating Area. If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to the pool or zone for which such participating area was established, such operation, including the Completion of such well, may be conducted only if it receives the Approval of the Parties within such participating area, and only upon such terms and conditions as may be specified in such Approval, and upon such further terms and conditions as may be agreed to by the Parties owning interests in the well immediately prior to the commencement of any such Deepening or Plugging Back operation.

11.3 Conflicts. If conflicting elections to attempt to Deepen or Plug Back are made in accordance with the provisions of this Article 11, preference shall be given first to Deepening. However, if a Deepening attempt does not result in completion of the well as a producer of unitized substances, Unit Operator shall again give notice in accordance with Subdivision A of Section 11.1 before plugging and abandoning the well.

11.4 Attempted Completion. Except as otherwise provided in Section 11.2, the attempted Completion of a well Deepened or Plugged Back to the depth projected for such Deepening or Plugging Back operation shall be governed by the provisions of Section 9.3, unless every Participating Party has

consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Participating Party.

11.5 Abandonment of Producing Wells. A well completed as a producer of unitized substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of Section 11.6. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such well shall not be abandoned for production from the pool or zone in which it is Completed, except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such well receives the Approval of the Parties who own the well but is not consented to by all such Parties, Unit Operator shall give notice thereof to each Party, if any, then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called Non-Abandoning Party) may give notice thereof to all other Parties (herein called Abandoning Parties) then having interests in the well, provided such no lice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the Non-Abandoning Party or Parties shall forthwith pay to the Abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the Abandoning Parties shall be deemed to have relinquished to the Non-Abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then Completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one Non-Abandoning Party, the interests so relinquished shall be owned by the Non-Abandoning Parties in the proportions which their respective interests in the well bear to the total of their interests therein immediately prior to such relinquishment.

C. Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the Non-Abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens, and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided) and also the Costs of any additional tankage, flow lines, or other facilities needed to measure separately the unitized substances produced from the well. Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 1, if such rate is provided.

D. Option to Repurchase Materials. If a well taken over by the Non-Abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the Abandoning Parties of their interests therein, each Abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well which is equal to the interest relinquished by it to the Non-Abandoning Party or Parties, at the value previously fixed therefor. Said option may be exercised only by notice given to Unit Operator and to the Non-Abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to Section 11.6.

11.6 Deepening or Plugging Back Abandoned Producing Wells. Before plugging any well authorized for abandonment pursuant to Section 11.5, Unit Operator shall give notice to the Party or Parties owning Committed Working Interests in the tract of land upon which the well is located, which Parties, for the further purposes of this Section 11.6, shall constitute the Parties entitled to initiate and participate in a proposed Deepening or Plugging Back operation. Within ten (10) days after receipt of said notice, any such Party desiring the Deepening or Plugging Back of such well shall give notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation; and all the provisions of Subdivisions E, F, and G of Section 11.1 shall apply in the same manner as if the proposed Deepening or Plugging Back were a proposal for the Drilling of an Exploratory Well, subject, however, to the provisions of Section 11.2 and Section 11.3. If no Party gives notice of desire to Deepen or Plug Back such well within said period often (10) day. or if such notice is given but no party elects to proceed with the Deepening or Plugging Back of the well within the time specified therefor, Unit Operator shall plug and abandon the well for the account of the Party or Parties owning the well.

ARTICLE 12
RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Use of Terms. As used in this Article, the terms "Drilling Party" and "Non-Drilling Party" are to be understood as including "Completing Party" and "Non-Completing Party" and "Participating Party" and "Non-Participating Party", respectively, as such terms are used in Articles 8, 9, and 11.

12.2 Scope of Article. The rights and obligations of the Drilling Party and Non-Drilling Party with respect to any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein shall be governed by the succeeding provisions of this Article 12.

12.3 Relinquishment of Interest by Non-Drilling Party. When any Drilling, Deepening, Plugging Back, or Completion operation is conducted otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party, upon the commencement of such operation, shall be deemed to have relinquished to the Drilling Party, and the Drilling Party shall own, all such Non-

Drilling Party's operating rights and working interest in and to the well with respect to which such operation was conducted. In the case of a Deepening or Plugging Back operation, if a Non-Drilling Party in such operation owned an interest in the well immediately prior to the Deepening or Plugging Back, then the Drilling Party for that operation shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.4 Reversion of Relinquished Interest. If, as a result of any Drilling, Deepening, Plugging Back, or Completion operation conducted otherwise than for the account of all Parties entitled to participate therein, a well is completed as a producer of unitized substances and is a Development Well or results in the establishment or enlargement of a participating area to include such well and if, by reason thereof, there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then the operating rights and working interest relinquished by such Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burden and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in Equipping the well and in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

B. 300% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back, or Completing the well that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged back, or Completed and Equipped for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back operation is involved, then (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.3 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, (i) where a Plugging Back is involved, there shall be added to and deemed part of the Costs incurred in such Plugging Back the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer of unitized substances as a result of such Plugging Back, and (ii) where a Deepening is involved, there shall be added to and deemed part of the Costs incurred in such Deepening the then unrecovered portion of the Costs incurred in the initial Drilling of the well.

12.5 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis, in the ownership of the well, the operating rights and working interests therein, the materials and equipment in or pertaining to the well, the Production therefrom, and the Costs of operating the well.

12.6 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back, or Completed shall pay and bear all Costs incurred therein and shall own the well and the materials and equipment in the well or pertaining thereto, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall own that portion of the Production obtained from the well after such relinquishment which is allocated to all the acreage of such Non-Drilling Party in the participating area involved and shall pay and bear (a) that portion of the Costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party and (b) all Lease Burdens that are payable with respect to that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

12.7 Accounting Due Non-Drilling Party. In the event a relinquishment of interest by a Non Drilling Party occurs pursuant to any provision of this Agreement with respect to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party, upon its request, all information referred to in Subdivision F of Section 16.1 and, in addition, the following

A. an itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

B. until reversion occurs, a monthly itemized statement of the Costs incurred in operating said well, the quantity of Production obtained therefrom, the proceeds received from the sale of such Production, and the Lease Burdens paid with respect thereto.

12.8 Stand-By Rig Time. Stand-by time for the rig on a well for the period of time allowed for the initiation of a proposal and for the response thereto shall be charged and borne as part of the Costs incurred in the operation just completed. Stand-by time subsequent to said period of time shall be charged to and borne as Costs incurred in the proposed operation, unless no Party elected to participate therein.

12.9 Subsequently Created Lease Burdens. Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest. or any other interest out of its Committed Working Interest and at any time become a Non-Drilling Party with respect to any operation conducted under this Agreement, then the Drilling Party entitled to receive the share of Production to which the Non-Drilling Party would otherwise be entitled shall receive the same free and clear of any such burden, and the Non-Drilling Party who created such burden shall hold the Drilling Party harmless with respect thereto.

ARTICLE 13
ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Nlade. Whenever, in accordance with the Unit Agreement, a participating area IS established, or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision, or combination being hereinafter referred to as a "resulting area"), an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area. For the purposes of this Article 13, all Costs of a usable well shall be deemed to have been incurred on the date the well was Completed.

13.2 Definitions. As used in this Article 13:

A. "Usable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which the resulting area was created or (2) used as a disposal well, injection well, or otherwise in connection with the production of unitized substances from such resulting area.

B. "Intangible value" of a usable well within a resulting area means the amount of those Costs incurred in Drilling, Completing, and Equipping such well, down to the deepest pool or zone for which such resulting area was created, which contribute to the production of unitized substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well was operated prior to the effective date of such resulting area:

(1) .5 % per month for a cumulative total of 60 months, and

(2) NONE% per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the production of unitized substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this Agreement.

D. "Value" of tangible property means the amount of Costs incurred in the construction or installation thereof (except installation costs properly classified as part of the intangible costs incurred in connection with a well), reduced, in the case of tangible property which is generally regarded as depreciable, at the rate of .50 % per month for each month during any part of which such well has been operated prior to the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by the establishment or enlargement of a participating area, and as of such effective date, an adjustment shall be made in accordance with the following provisions, except to the extent otherwise specified in Section 13.6:

A. The intangible value of each usable well within such resulting area on the effective date thereof shall be credited to the Party or Parties owning such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of usable wells shall be charged to all Parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties owning such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of the tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or usable well which also serves another participating area or other participating areas, the value of such tangible property and usable well (including the intangible value thereof shall be determined in accordance with Subdivision D of Section 13.2, and such value shall be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives the Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and usable well (including the intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as is the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator in such manner that an adjustment shall be made for the intangible value of usable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this Agreement; and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of a contraction of a participating area, an adjustment shall be made with each Party owning a

Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this Section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B of this Section 13.4, and a separate adjustment for tangibles shall be made in accordance with Subdivision C of this Section 13.4.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, was delivered to such Party with respect to such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, plus (2) the total amount credited to such Party with respect to such excluded interest as intangible value of usable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section 13.4 over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of(l) the excess, if any, of the charge provided for in said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party with respect to its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section 13.4 is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against Parties who remain in the participating area after such contraction and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all usable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment provided for shall be owned by the Parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a usable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interest of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a usable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date, then insofar, but only insofar, as they relate to such well, the adjustments provided !'or in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party with respect to (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back, or Completed otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B of Section 13.3, with respect to its Committed Working Interests other than those referred to in (1) and (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back, or Completed for the account of all Parties entitled to participate therein exceeds the amount provided in Subdivison A of this Section.

13.6 to be charged against the Drilling Party, such excess shall be applied against the reimbursement

to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14
SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this Agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this Article 14 by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided for in the Unit Agreement and except as otherwise specified in this Agreement (particular reference being made to Section 25.1, Section 27.1, and that portion of Section 11.5 relating to abandonment of producing wells outside of a participating area), the affirmative vote of Parties having 65 % or more of the voting power on any matter which is proper for action by them shall be binding upon all Parties entitled to vote thereon; provided, however, if one Party voting in the affirmative has 65 % or more but less than 75 % of the voting power, the affirmative vote of such Party shall not be binding upon the

Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than 35 % but less than 50% of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding upon all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or in the negative. Any Approval or Direction provided for in this Agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding upon all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties, or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time, and a meeting shall be called by Unit Operator upon written request of any Party having voting power on any matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat notice of the time, place, and purpose of the meeting. Unit Operator's representative shall be the Chairman of such meeting.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party notice, describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator within such period as may be designated in the notice given by Unit Operator (which period shall be not less than ten (10) nor more than thirty (30) days); provided, however, if, within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon notice, stating the tabulation and result of the vote.

14.5 Representatives. Promptly after execution of this Agreement, each Party, by notice to all other Parties, shall designate a representative authorized to vote for such Party and may designate an alternate authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by notice given to all other Parties, provided such notice designates a new representative or alternate representative, as the case may be.

14.6 Audits. Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 1.

14.7 Extraneous Projects. Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this Agreement.

ARTICLE 15
UNIT OPERATOR'S POWERS AND RIGHTS

15.1 In General. Subject to the limitations set forth in this Agreement, all operations authorized by the Unit Agreement and this Agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment, and any other property used in connection with any operation within the Unit Area.

15.2 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone; and their working hours, rates of compensation, and all other matters relating to their employment shall be determined solely by Unit Operator.

15.3 Non-Liability. Unit Operator shall not be liable to any Party for anything done or omitted to be done by it in the conduct of operations hereunder, except in case of bad faith.

15.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent

that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether Federal, State, or local, inability to obtain necessary rights of access, or any other cause reasonably beyond the control of Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the Parties as promptly as is reasonably practicable.

15.5 Lien. Each of the Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment, and other property, and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. In addition to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or of any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the rate of *% per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the Parties chargeable therewith payment in advance of their respective shares of the estimated amount of Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after receipt thereof and thereafter shall bear interest at the rate of *% per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening, Plugging Back, or Completing operation and, notwithstanding any other provisions of this Agreement, shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for such payment by the Party or Parties chargeable therewith.

15.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Deepening, or Plugging Back operation conducted hereunder may be conducted by Unit Operator with its own tools and equipment, provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs of such operation, except that in any case where Unit Operator alone constitutes the Drilling Party, such form shall receive the Approval of the Parties within the participating area or other designated area for such well prior to the commencement of such operation.

15.8 Rights as Party. As an owner of a Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not Unit Operator. In each instance where this Agreement requires or permits a Party to give notice, consent, or approval to Unit Operator, such notice, consent, or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent, or approval. *2% above prime rate as set by the Chase Manhattan Bank of New York City, New York

ARTICLE 16
UNIT OPERATOR'S DUTIES

16.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling of Wells. Drill, Deepen, Plug Back, or Complete a well or wells only in accordance with the provisions of this Agreement.

B. Compliance with Laws and Agreements. Comply with the provisions of the Unit Agreement, all applicable Jaws and governmental regulations (whether Federal, State, or local), and Directions of the Parties pursuant to this Agreement. In case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern.

C. Consultation with Parties. Consult freely with the Parties within the area affected by any operation hereunder and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment.

D. Payment of Costs. Pay all costs incurred in operations hereunder promptly as and when due and payable and keep the Committed Working Interests and all property used in connection with operations under this Agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving notice thereof to the Parties affected thereby.

E. Records. Keep full and accurate records of all Costs incurred and of all controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized employees or agents of the Parties at reasonable intervals during usual business hours at the office of Unit Operator.

F. Information. Furnish promptly *to* each Party chargeable with Costs of the operation Involved and to each additional Party who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditures or itemizations of estimated expenditures in excess of Twenty –Five Thousand Dollars ($25,000), (2) copies of all drilling reports, well logs, and State and Federal reports, (3) samples of cores and cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (4) such other and additional information or reports as may be required by Direction of the Parties within the area aff'ected. If multiple copies of any such materials are requested by any Party, Unit Operator may charge the cost thereof directly to the requesting Party.

G. Access to Unit Area. Permit each Party, through its authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting materials, equipment, or other property used in connection with operations under this Agreement and to have access at reasonable times to information and data in the possession of Unit Operator concerning Unit operations.

16.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the State in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 3 or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties, except as above specified. Upon request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractors'. Unit Operator shall require all contractors engaged in operations under this Agreement to comply with the Workmen's Compensation Law of the State in which the Unit Area is located and to maintain such other insurance as may be required by Direction of the Parties.

C. Automotive Equipment. In the event Automobile Public Liability insurance is specified in Exhibit 3 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Unit Operator's fully owned automotive equipment.

16.3 Non-Discrimination. In connection with the performance of work under this Agreement, Unit Operator agrees to comply with the provisions of Exhibit 4. Unit Operator agrees to insert non-discrimination provisions in all subcontracts hereunder, as required by law or regulation.

16.4 Drilling Contracts. Each Drilling, Deepening, Plugging Back, or Completing operation con· ducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15. 7, shall be performed by a reputable drilling contractor having suitable equipment and personnel, under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid, if bids were obtained, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided for shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17
LIMITATIONS ON UNIT OPERATOR

17.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change in Operations. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of Twenty Five Thousand Dollars($25,000); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Completing, or Deepening or Plugging Back operation, or to undertake any other project, in accordance with this Agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith, and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all Parties as promptly as reasonably possible.

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator, appoint any sub-operator, or execute any Designation of Agent.

D. Settlement of Claims. Pay in excess Ten Thousand Dollars ($10,000) in settlement of any claim (other than Workman's Compensation Claims) for injury to or death of persons or for loss of or damage to property.

E. Determinations. Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this Agreement.

ARTICLE 18
TITLES

18.1 Representation of Ownership. Each Party represents to all other Parties that, to the best of its knowledge and belief, 1ts ownership of Committed Working Interests in the Unit Area is that set out in Exhibit B to the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cau3e for canceling or terminating this Agreement.

18.2 Title Papers to be Furnished.

A. Lease Papers. Each Party, after executing this Agreement, shall upon request promptly furnish Unit Operator with copies of all leases, assignments, options, and other contracts which it has in its possession relating to its Committed Working Interests.

B. Title Papers for Initial Test Well. Promptly after the effective date of this Agreement each Party within the area described as the Title Examination Area in Exhibit 2 shall, at its own expense but without responsibility for the accuracy thereof, furnish Unit Operator with the following title materials relating to all lands within such area in which it owns Committed Working Interests:

(1) Abstracts of title based upon the County records, certified to the current date;

(2) All lease papers, or copies thereof, mentioned in Subdivision A of this Section 18.2 which the Party has in its possession and which have not been previously furnished to Unit Operator;

(3) Copies of any title opinions which the Party has in its possession;

(4) If Federal lands are involved, status reports of current date, setting forth the entries found in the BLM State Office for such lands, and also certified copies of the Serial Registers for the Federal leases involved;

(5) If State lands are involved, status reports of current date, setting forth the entries found in the State records for such lands; and

(6) If Indian lands are involved, status reports of current date, setting forth the entries found in the Bureau of Indian Affairs Agency Realty Office having jurisdiction over such lands and in the Bureau of Indian Affairs Land Titles and Records Office having jurisdiction over such lands.

C. Title Papers for Subsequent Wells. Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 2,560 acres and not including any lands within a participating area. When the Drilling of a Development Well receives the Approval of the Parties within the participating area in which it is to be Drilled, a title examination area covering lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall, at its own expense and upon request, furnish Unit Operator with the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. Title Papers on Establishment or Enlargement of a Participating Area. Upon the establishment or the enlargement of a participating area, each Party shall promptly furnish Unit Operator all the title materials listed in Subdivision B of this Section 18.2 not previously furnished, relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 Title Examination. Promptly after all title materials delivered pursuant to Section 18.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties within the title examination area as soon as they are received. Each Party shall be responsible, at its expense, for curing its own titles. After a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing, within fifteen (15) days after receipt of such recommendations, of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as part of the Costs of Drilling the well for which such title examination was made.

18.4 Option for Additional Title Examination. Any Party who furnishes materials for title examination pursuant to Section 18.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same; and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove titles according to the provisions of this Article 18

18.5 Approval of Titles Prior to Drilling. Where the Committed Working Interests within a title examination area are owned by more than one Party, no Drilling shall be conducted in such area until t1tles to the Comm1tted Working Interests therein have received the Approval of the Parties as hereinafter m th1s Section prov1ded. If a Drilling Block has been designated for the Drilling of a well, such well shall not be Drilled until titles to the Committed Working Interests within the title examination area established for such well have received the Approval of the Parties within the Drilling Block in which such wells to be Drilled. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If lands outside a participating area are included in the title examination area for a Development Well, such well shall not be Drilled until t1tles to the Committed Working Interests within such title examination area have received the Approval of the Parties therein. In the event Approval of the Parties is not obtained as in this Section 18.5 provided, the Drilling Party (whether one or more) may proceed with the Drilling of the well, but sa1d Drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such approval to the s me extent as if approval of titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have gl ven its approval to the titles to all lands within the Drilling Block (if one has been established) or within the title examination area (in all other instances).

18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area. Where the Committed Working Interests within a participating area are owned by more than one Party, no Committed Working Interest shall be included within said participating area or be entitled to participate in the Production of unitized substances from said participating area until title to such Committed Working Interest has received the Approval of the Parties within said participating area. Approval of titles to lands within a participating area shall be binding upon all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

18.7 Failure of Title to Committed Working Interest Before Approval. If title to a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against any and all liability on account thereof.

18.8 Failure of Title to Committed Working Interest After Approval. If title to a Committed Working Interest which has received the Approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block or within a Drilling Block upon which a well has been completed otherwise than as a producer of unitized substances in Paying Quantities, or if title to a Committed Working Interest which has received the Approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

A. the loss, the cost of litigation, and any ensuing liability shall be borne by the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest);

B. there shall be relinquished to the Party whose Committed Working Interest has been lost such proportionate part of each of the 0ther Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like proportion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the Parties within such participating area or Drilling Block; and

C the relinquished portions of said Committed Working Interests (subject to their proportionate part of the Lease Burdens attributable thereto) shall be deemed owned by the Party receiving same.

18.9 Joinder by True Owner. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this Agreement or the Unit Agreement. The true owner of a Committed Working Interest, title to which has failed, may join in this Agreement or enter into a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the Approval of the Parties within the Unit Area and subject to any valid claims by the true owner.

18.10 Title Challenge. In the event of any suit or action challenging the title of any Party to any of the oil and gas rights committed by said Party to this Agreement and to the Unit Agreement, the Party served will immediately notify the other Parties, and the Party whose title has been challenged shall forthwith take over and be in charge of the conduct of the litigation and shall bear the entire cost of such litigation, unless the title has previously received the Approval of the Parties, in which event the provisions of Section 18.8 shall apply.

ARTICLE 19
UNLEASED INTERESTS

19.1 Treated as Leased. If a Party owns in fee all or any 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 Party shall be deemed to own a Committed Working Interest in such tract and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached as Exhibit 5.

19.2 Execution of Lease. In any provision of this Agreement where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party. each such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall

execute an oil and gas lease to such other Party in the form of Exhibit 5, which shall satisfy the requirement for an assignment or conveyance of a Committed Working Interest.

ARTICLE 20
RENTALS AND LEASE BURDENS

20.1 Rentals. Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or with respect to its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payment, provided it has acted in good faith.

20.2 Lease Burdens. Each Party entitled to receive a share of Production shall be obligated for any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests, and any similar interest payable with respect to such share or the proceeds thereof; provided, however, at any time any such Party entitled to receive Production is not taking in kind or separately disposing of its share, that portion of such Production or the proceeds thereof (at the option of such Party) accruing to such Lease Burdens shall, upon request, be distributed to such Party.

20.3 Loss of Committed Working Interest. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area, the provisions of Section 18.8 shall apply.

ARTICLE 21

TAXES

21.1 Payment. Any and all ad valorem and severance taxes payable upon Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment, or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by unitized substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens shall be paid by Unit Operator as and when due and payable.

21.2 Apportionment. Taxes upon materials, equipment, and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All taxes paid by Unit Operator upon or measured by the value of Production shall be charged to and borne by the Parties owning the same in the same proportions as the assessed values of their respective portions of such Production bear to the whole thereof. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or unitized substances (as the case may be) upon which or with respect to which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 Transfer of Interests. In the event of a transfer by one Party to another under the provisions of this Agreement of any Committed Working Interest or of any other interest in any well or in the materials and equipment in any well, or in the event of the reversion of any relinquished interest as in this Agreement provided, the taxes above mentioned assessed against the transferred or reverted interest for the taxable period in which such transfer or reversion occurs shall be apportioned among said Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 Notices and Returns. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies, or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports, and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the Parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22
WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 Right of Withdrawal. If the owner of any substantial interest in a tract within the Unit Area fails or refuses to join in the Unit Agreement, then such tract may be withdrawn from the Unit Agreement, as provided in the Unit Agreement.

22.2 Non·Withdrawal. Should the Party or Parties having the right under the Unit Agreement to withdraw a tract from the Unit Agreement fail to exercise such right, then all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23
COMPENSATORY ROYALTIES

23.1 Notice. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give notice thereof to each Party affected by the demand.

23.2 Demand for Failure to Drill a Development Well. If the demand for compensatory royalties results from the failure to have Drilled a Development Well and such well is not Drilled, then Unit

Operator shall pay such compensatory royalties. Such payment shall be charged as Costs incurred in operations within the participating area involved.

23.3 Demand for Failure to Drill a Well Other Than a Development Well. If the demand for compensatory royalties results from the failure to have Drilled a well other than a Development Well and such well is not Drilled, then Unit Operator shall pay such compensatory royalties. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well under Subdivision B of Section 10.4.

ARTICLE 24
SEPARATE MEASUREMENT AND SALVAGE

24.1 Separate Measurement. If a well completed as a producer of unitized substances is in or becomes included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request therefor by any interested Party, a method of measuring the Production from such well without the necessity of additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines, or other facilities for separate measurement of the unitized substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well, notwithstanding any other provisions of this Agreement.

24.2 Salvaged Materials. If any materials or equipment are salvaged from a well completed as a producer after being Drilled, Deepened, Plugged Back, or Completed otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Party of its relinquished interest in the well, the proceeds derived from the sale thereof or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to the Non-Drilling Party of its relinquished interest in such well.

ARTICLE 25
ENHANCED RECOVERY AND PRESSURE MAINTENANCE

25.1 Consent Required. Unit Operator shall not undertake any program of enhanced recovery or pressure maintenance involving injection of gas, water, or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of Parties owning, on an Acreage Basis, not less than 90 % of the Committed Working Interests in the participating area affected by any such program. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 25.1, the conduct of such program shall be subject to supervision by the Parties as set forth in Article 14.

25.2 Above-Ground Facilities. This Agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant, or other above-ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26
TRANSFERS OF INTEREST

26.1 Sale by Unit Operator. If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.2 Assumption of Obligations. No transfer of any Committed Working Interest shall be effective unless the same is made expressly subject to the Unit Agreement and this Agreement and

the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this Agreement insofar as they relate to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.3 Effective Date. A transfer of Committed Working Interests shall not be effective as among the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.2. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued under this Agreement prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening, Plugging Back, or Completing of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27
RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 Surrender or Release Within Participating Area. A Committed Working Interest in land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening, Plugging Back, or Completing of a well within such participating area may be relieved of further obligations with respect to such participating area, as then constituted, by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Commit ted Working Interests owned by such Party in lands within the participating area, together with the

entire interest of such Party in any and 211 wells, materials, equipment, and other property within or pertaining to such participating area.

27.2 Procedure on Surrender or Release Outside Participating Area. Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any participating area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties notice thereof, describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party or Parties desiring to surrender an assignment of such Committed Working Interest by giving the Party or Parties desiring to surrender notice of election so to do within thirty (30) days after receipt of notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment. If no Party elects to take such assignment within said thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same, if surrender thereof can be made in accordance with the Unit Agreement. Whenever a Party owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

27.3 Accrued Obligations. A Party making an assignment or surrender in accordance with Section 27.1 or Section 27.2 shall not be relieved of its liability for any obligation accrued under this Agreement at the time the assignment or surrender is made or of the obligation to bear its share of the Costs incurred in any Drilling, Deepening, Plugging Back, or Completing operation in which such Party had elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party under this Agreement and under the Unit Agreement.

ARTICLE 28
LIABILITY

28.1 Liability. The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 No Partnership Created. It is not the intention of the Parties to create, nor shall this Agreement or the Unit Agreement be construed as creating, a mining or other partnership or association between the Parties or as rendering them liable as partners or associates.

28.3 Election. Each of the Parties hereby elects, under the authority of Section 761(a) of the Internal Revenue Code of 18 86 to be excluded from the application of all the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986. In making this election, each Party states that income derived by it from operations under this Agreement can be adequately determined without computation of partnership taxable income. If the income tax laws of the State or States in which the Unit Area is located contain, or hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1986 above referred to under which a similar election is permitted, each of the Parties agrees that such election shall be exercised; and should the income tax laws of such State or States require evidence of such election, Unit Operator is authorized and directed to execute the same on behalf of each Party. Beginning with the first taxable year of operation under this Agreement, each Party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply, and no Party will file an application under Federal Regulations Section 1.761·2(b)(3)(i) to revoke said election. *See Page 22.

ARTICLE 29
NOTICES

29.1 Giving and Receipt. Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

29.2 Addresses. For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

ARTICLE 30
EXECUTION

30.1 Counterparts. This Agreement may be executed in counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This Agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this Agreement. Such ratification shall have the same effect as if the Party executing it had executed this Agreement or a counterpart hereof.

30.3 Effect of Signature. When this Agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other, and each Party theretofore or thereafter

executing this Agreement shall thereupon become and remain bound hereby until the termination of this Agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this Agreement, then, at the expiration of said period, this Agreement shall terminate.

ARTICLE 31
SUCCESSORS AND ASSIGNS

31.1 Covenants. This Agreement shall be binding upon and shall inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns, and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute covenants running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32
HEADINGS FOR CONVENIENCE

32.1 Headings. The Table of Contents and the headings used in this Agreement are inserted for convenience only and shall be disregarded in construing this Agreement.

ARTICLE 33
RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this Agreement shall be deemed to constitute a waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether Federal, State, or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34
SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have joined the Unit Agreement shall be privileged to execute or ratify this Agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any working interest in land within the Unit Area which is not then committed hereto may be committed to this Agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35
CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B to the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying Party executes this Agreement, be deemed to be, for the purpose of this Agreement, a Committed Working Interest owned by the carrying Party.

ARTICLE 36
EFFECTIVE DATE AND TERM

36.1 Effective Date and Term. This Agreement shall become effective upon the effective date of the Unit Agreement, shall continue in effect during the term of the Unit Agreement, and shall terminate concurrently therewith.

36.2 Effect of Termination. Termination of this Agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this Agreement, the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties has been made. Termination of this Agreement shall automatically terminate all rights and interests acquired by virtue of this Agreement in lands within the Unit Area, except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

ARTICLE 37
OTHER PROVISIONS

37.1 PAYMENT OF TAXES RELATING TO PRODUCTION.

A. At and during such time, or times, as Non-Operator is exercising the right to take in kind or separately dispose of its proportionate part of the production as set forth in Paragraph 6.4 hereof, Non-Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.

B. At and during such time, or times, as Unit Operator is selling Non-Operator's proportionate part of the production, as set forth m Paragraph 6.5 hereof, Unit Operator shall pay, or arrange for the payment of, all production, severance, gathering, sales or similar taxes imposed upon such part.

37.2 NON-CONSENT INVESTMENT ADJUSTMENT. Notwithstanding any provision in this Agreement to the contrary, no Party shall be liable, without its consent, for any investment adjustment charge under the provisions of Section 13.3D or 13.4D, which charge is in excess of the Party's credits under Article 13. In the event of the establishment, enlargement or contraction of a Participating Area, the provisions of Article 12, and other provisions related thereto, shall be applicable to any investment adjustment to the same extent that these provisions are applicable to a well drilled otherwise than for the account of all Parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If, within 30 days after proposal for establishment, enlargement or con traction of a Participating Area has been submitted by Unit Operator in writing to the Working Interest Owners involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement or contraction, that Party shall be a Non-Drilling Party, and shall be deemed, as of the effective date of the resulting area in connection with which such charge is made, to have relinquished the interest for which such charge is made to the Party, or Parties, who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which latter Party, or Parties, shall be the Drilling Party with respect to this relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12, except that it is specifically understood that the Article 12.4B percentage for exercise of the Non-Drilling Option applicable to establishment, enlargement or contraction of the Participating Area be 300%.

28.3 TAX ELECTION. (Continued) This election by the Parities to be excluded from the application of all of the provisions of Subchapter K does not apply in any way to any subsequent agreements between the Parties, or with third parties, concerning the sharing of costs for the drilling of any wells in the Unit Area. The Parties reserve the right to decide with each such subsequent agreement whether they elect to be excluded from the application of Subchapter K.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

CORTEZ EXPLORATION, LLC

By: /s/Otto F. Duffield
Otto F. Duffield

Address: 16786 Kincheloe Road
Siloam Springs, Arkansas 72761

Date of Execution

February 4, 2010

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me by OTTO F. DUFFIELD ,

as MANAGER

of Cortez Exploration, LLC.

This 4TH day of FEBRUARY , 2010.

WITNESS my hand and official seal.

My Commission Expires:

DECEMBER 4, 2010

/s/ Gale L. Staton
Notary Public

UNIT OPERATOR SIGNATURE PAGE FOR THE
PARADISE UNIT AGREEMENT
NYE AND MINERAL COUNTIES, NEVADA

COPAS 1984 ONSHORE
Recommended by the Council
of Petroleum Accountants
Societies

EXHIBIT "1"

Attached to and made a part of the Unit Operating Agreement for the Paradise Unit Area, Mineral and Nye Counties, Nevada

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 andlor contract labor directly employed on the Joint Property in 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 laterial which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2 **Statement and Billings**

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

3 Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made Within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank, New York, New York the first day of the month in which delinquency occurs plus 2% the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs. and other costs in connection with the collection of unpaid amounts

4 Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof. provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment No adjustment favorable to Operator shall be made unless it is made withm the same prescribed period The provisions of th1s paragraph shall not prevent adjustments resulting fi"om 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 wllhln 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 1. 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 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 approvmg 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 th1s Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions 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 the Joint Property if such charges are excluded from the overhead rates

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or 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 1mposed 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

Paragraphs 3A and 3B of this Section II.

4 **Employee Benefits**

Operator's current costs or 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 rece1vmg point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above. the option to equalize or charge actual trucking cost is avallable 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 twelve percent (12 %) 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 1n Paragraph 8A above. Operator rnay elect to use average commercial rates prevailmg 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 Assoc lation.

9 **Damages and Losses to Joint Property**

All costs or expenses necessary for the repa1r or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, 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 Judgment 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 requ1red to be earned 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

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

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

iii The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant servicces 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. 0verhead- Fixed Rate Bass

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

Drilling well Rate $ 6,500.00
(Prorated for less than a full month)

Producing Well Rate $ 650.00

(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 sha ll be made during suspensron 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 period of live (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 multi-completed well 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 any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered *by* unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead- Percentage Basis

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

(a) Development

_____ Percent (_____ 0/o) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Sect1on II and all salvage credits.

(b) Operating

_____ *Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided* under Paragraphs 2 and 10 of Section II, all salvage credits, the value of inJected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also. preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer. and orig1nal cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2 **Overhead-Major Construction**

To compensate Operator for Overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible 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

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 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. 5 % of total costs through $100,000; plus
B. 3 % of total costs in excess of $100,000 but less than $1 ,000,000; plus
C. 2 % of total costs in excess of $1.000,000.

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

4 **Amendment of Rates**

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

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

Operator Is responsible for Joint Account Material and shall make proper and tImely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property: however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Materia, such disposal being made either through sale to Operator or Non-Operator, division in kind, 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 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 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 new price, in effect at date of movement. as listed *by* a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, 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 (I) and *(2).*

B. Good used Materia1 (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A. If Material was originally charged to the Joint Account as used Material.

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

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

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

C. Other Used Material

(1) Condition C

Material wh1ch is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%') of current new price determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e. g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tublar 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 Marerial at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4 **Warranty of Material Furnished By Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1 **Periodic Inventories, Notice and Representation**

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

inventory shall bind Non-Operators to accept the inventory taken by Operator.

2 **Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages. but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3 **Special Inventories**

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

4 **Expense of Conducting Inventories**

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

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

EXHIBIT "2"

Initial Test Well

Attached to and made a part of the
Unit Operating Agreement for the
Paradise Unit Area
Mineral and Nye Counties, Nevada

)CATION: The initial test well shall be drilled at a location selected by Unit Operator and approved by the Authorized Office of the Bureau of Land Management.

PTH: The initial test well shall be drilled conformably with the terms of Article 9 of the Paradise Unit Agreement.

STS: All costs and expenses incurred in connection with the initial test well, including drilling, testing and completing into the tanks, if an oil well, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by Cortez Exploration LLC and such other parties hereto as agreed to bear such costs in accordance with separate agreement among themselves and where applicable subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received toward the drilling of the initial test well shall belong to the parties sustaining the risk of drilling the initial test well.

LE EXAMINATION AREA: The title examination area for the initial test well shall be an area surrounding the location of such well as may be designated by the Unit Operator.

ST OF TITLE EXAMINATION: The cost of title examination shall be charged as a cost of drilling the initial test well.

EPENING, PLUGGING RACK: In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Well shall be governed by the provisions of Section 9.3 to this agreement.

EXHIBIT "3"

Attached to and made a part of the
Unit Operating Agreement for the
Paradise Unit Area
Mineral and Nye Counties. Nevada

INSURANCE

For Operations by Unit Operator: The Unit Operator shall carry for the benefit of the joint account insurance to cover the Unit Operator's operations on the lands covered by this Agreement as follows:

1. Workmens' Compensation Insurance in full compliance w1th the laws of the applicable State in which operations are conducted.

2. Employer's Liability Insurance with limits of$100,000 as to any one person and $100,000 as to any one accident.

3. Public Liability Insurance: Bodily Injury (other than automobile) w1th limits of$1,000,000 as to any one person, $1,000,000 as to any one accident; and Property Damage (other than automobile) with limits of$1,000,000 for each accident, $1,000,000 aggregate.

4. Automobile Public Liability Insurance, with limits of $50,000 as to any one person and
$50,000 as to any one accident, and Property Damage of $50,000 for each accident; excess coverage of such limits up to $1,000,000 combined single limit.

Operator shall not carry physical damage insurance on Jointly-owned property, it being understood and agreed that each party will be responsible for its own interest in such properties and will assume its portion of any loss that occurs. Operator shall promptly notify Non-Operator in writing of all losses involving damage to jointly-owned property in excess of S 1,000.

Operator shall submit to Non-Operators certificates of insurance in evidence of the above coverage. Such certificates shall specify that in event of cancellation or material change in coverage at least ten days prior written notice will be given to Non-Operators at their respective addresses.

Operator shall notify Non-Operators promptly in writing of any occurrences wherein liability may exceed the limits of the insurance if covered by insurance as set out above.

EXHIBIT "4"

Attached to and made a part of the
Unit Operating Agreement for the
Paradise Unit Area
Mineral and Nye Counties, Nevada

EXECUTIVE ORDER NO. 11246 AND EXECUTIVE ORDER NO. 11598
PROVISIONS OF SECTION 202 OF EXECUTIVE ORDER NO. 11246

(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure the applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. 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 contractor 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 non-discrimination clause.

(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advertising the labor union or workers' representative of the contractors' commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The contractor will furnish all information and reports required by Executive Order No. 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 his 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 contractor's non-compliance with the non-discrimination clauses of this contract or with any of such rules. regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. I 1246 of September 24, I 965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. I 1246 of September 24, I 965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

(7) The contractor will include the provisions of Paragraphs (I) 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 No. 11246 of September 24, 1965, so that such provision will be binding upon each subcontractor or vendor. The contractor 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 contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

OIL AND GAS LEASE

AGREEMENT, Made and entered into this day of , 20 , by and between

, party of the first part, hereinafter called lessor, (whether one or more) and ,party of the second part, lessee.

WITNESSETH: That the lessor for and in consideration of Dollars in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided, and of the agreements of lessee herein contained, herby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling and mining for the producing oil, gas, casinghead gas, and all other minerals, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in County, State of to wit:

EXHIBIT "5"

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

acres more or less.

TO HAVE AND TO HOLD the same (subject to the other provisions herein contained) for a term of ten years from this date (call "primary term") and as long thereafter as oil or gas or casinghead gas or either or any of them, is produced therefrom; or as much longer thereafter as the lessee in good faith shall conduct drilling operations thereon and should production result from such operations, this lease shall remain in full force an effect as long as oil or gas or casinghead gas, shall be produced therefrom.

In consideration of the premises it is hereby mutually agreed as follows:

1. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such one-eight (1/8) royalty the market price for oil of like grade and gravity prevailing in the field where produced on the day such oil is run into the pipe line, or into storage tanks.

2. The lessee shall pay lessor, as royalty, one-eighth (1/8) of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not used or sold shall pay Fifty Dollars ($50.00) per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well. The lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense.

3. To pay lessor for gas produced from any oil well and used off the premises or in the manufacturing of gasoline or any other product a royalty of oneeight (1/8) of the market value, at the mouth of the well, payable monthly at the prevailing market price.

4. If operation• for the drilling of a well for oil or gas arc not commenced on said ian on or before one year from this date, this lease shall terminate a• to both parties, unless the Jesse< shall. on or before one year from this date, pay or tender to the lessor or for the lessor's credit in

Bank at

or its successor or successors, which bank and its successors are lessor's agents and which shall continue as the depository regardless of changes in the ownership of the land, the sum of Dollars which shall operate as a rental and cover the privilege of deferring the commencement of operations for the drilling of a well one year from said date. In like manner and upon payments or tenders the commencement of operations for the drilling of a well may be further deferred for like periods successively during the primary term of this lease. And it is understood and agreed that the consideration first recited herein, the down payment, covers not only the privileges granted to the date when said rental is payable as aforesaid, but also the lessee's option of extending that period as aforesaid, and any and all other rights conferred. All payments or tenders may be made by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rental paying date. Lessee may at any 1me execute and deliver to lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered herein is reduced by said release or releases. Notwithstanding the death of the lessor, or his successor in interest, the- payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executors and administrators of such persons.

5. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced by the next ensuing rental paying date, or provided the lessee begins or resumes the payment of rentals 1n the manner and amount above herein provided; and in this event the preceding paragraphs. hereof governing the payment of rental and the manner and effect thereof shall continue in force.

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

7. Lessee shall have the right to use, free of cost, gas, oil, and water produced on said land for its operation thereon, except water from wells of lessor. When requested by lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor. Lessee shall pay for damages caused by its operations to growing crops on said land. Lessee shall have the right at any time to remove all improvements, machinery. and fixtures placed or erected by lessee on said premises, including the right to pull and remove casings.

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

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

10. There shall be no obligation on the put of the lessee to offset wells on separate tracts into which the land covered by this lease may be hereafter divided by sale, devise or otherwise, or to furnish separate measuring or receiving tanks. It is hereby agreed that, in the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such part or parts shall fail or make default in the payment of the proportionate part of the rent due from him or them, on an acreage basis, such default shall not operate to defeat or affect this lease in so far as it covers a part or part of said land upon which the said lessee or any assignee hereof shall make due payments of said rentals.

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

12. Lessee shall have the right to unitize, pool, or combine all or any part of the above described ands with other. lands in the same general area by entering 1nto a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms. conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions o! the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments. to be made hereunder to lessor shall be based upon production only as so allocated. Lessor shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee.

13. In addition to and not in limitation of the rights granted in paragraph 12 hereof, lessee is hereby granted the right and option to consolidate, pool or combine the lands covered by this lease. or any portion or portions thereof or any stratum or strata thereunder, with other lands or like strata there under for the development thereof or for the production therefrom of oil, gas, casinghead gas or other hydrocarbons, or any or all of said products, when in lessee's discretion and judgment it is advisable so to do for proper development or operation of the premises, or to conform to spacing or zoning rules of any lawful authority, such consolidation, pooling or combining to be into units of such shape and dimensions as lessee may elect provided that all lands in any such unit shall be contiguous (either adjoining or cornering) but for this purpose contiguity shall not be deemed to be destroyed by reason of the existence of a y excluded street. alley, road, railroad, canal, stream. right of way or other similar strip or parcel of land. Any unit formed under this paragraph for production of oil and casinghead gas shall not exceed forty-three (43) acres in surface area, for production of dry or gas well shall not exceed six hundred and sixty (660) acres in surface area, and for production of condensate or distillate shall not exceed three hundred and thirty (330) acres in surface area unless some larger unit for condensate or distillate is permitted or prescribed by lawful authority, in which event such larger unit shall control, provided that, if governmental survey units be irregular in size in the area of this lease, the size of any of the units mentioned herein may be increased to the size of the there existing governmental survey unit

nearest in size to the unit acreage prescribed herein. The right and option herein granted to lessee may be exercised at any time or from time to time, whether before or after production is secured and whether or not a unit may theretofore have been created for some other product, by executing in writing an instrument identifying and describing the unit created. and· by delivering a copy thereof to lessor or by recording a copy thereof in the county where the land 1s located. The lands in any such unit shall be developed or operated as one tract and any drilling on or production from such unit, whether or not from lands described in this lease, shall be deemed to be drilling done or production secured on the lands subject to this lease for all purposes except for the purpose of payment of royalty hereunder. In such event, and in lieu of the royalties elsewhere herein specified, the lessor shall receive from production on any such unit only such . portion of the royalty, at the rate stipulated elsewhere herein, as lessor's acreage in the unit (or his royalty interest therein) bears to the total acreage. Formation of any unit as herein provided shall in no manner affect the ownership or amount of any rental which may be payable under the terms of this lease.

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

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

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

17. If within the primary term of this lease production on the leased premises shall cease from any cause, this lease shall not terminate provided operations for the drilling of a well sha11 be commenced before or on the next ensuing rental paying date: or, provided lessee begins or resumes the payment of rentals in the manner and amount hereinbefore provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided lessee resumes operations for drilling a well within sixty (60) days from such cessation, and this lease shall remain in force during the prosecution of such operations and. if production results therefrom, then as long as production continues.

18. It is agreed that this lease shall never be forfeited or cancelled for failure to perform in whole or in part any of its implied covenants conditions or stipulations until it shall have first been finally judicially determined that such failure exists and after such final determination, lessee is given reasonable time therefrom to comply with any such covenants, conditions, or stipulations.

19. All express and implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damage for failure to comply therewith if compliance is prevented by or if such failure is the result of any such law, order, rule or regulation, or if such compliance is prevented by or failure is the result of inability of lessee through no fault of its own, to obtain sufficient and satisfactory material and equipment to justify the commencement of drilling operations or to continue production of oil or gas from the leased premises.

20. This lease and all its terms, conditions, and stipulations shall extend to and be binding on al1 successors of said lessor or lessee.

21. With respect to and for the purpose of this lease, lessor, and each of them if there be more than one, hereby release and waive the right of homestead. WHEREOF witness our hands as of the day and year first above written.

_____ _____

_____ _____

ACKNOWLEGDEMENT

STATE OF

_____ }ss.

County of _____

On this day of , 19_, before me personally appeared

to me known to be the person described in and who executed the

foregoing instrument and acknowledged that executed the same as free act and deed.

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

My Commission Expires

_____ _____

Notary Public

ACKNOWLEDGMENT-MAN AND WIFE

STATE OF

_____ }ss.

County of _____

On this day of , 19_, before me personally appeared

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

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

My Commission Expires

_____ _____

Notary Public

EXHIBIT "E"

FARMOUT AGREEMENT

THIS Farmout Agreement ("Agreement") is made and entered into this 11th day of June, 2010, by and between EMPIRE PETROLEUM CORPORATION (hereinafter referred to as "Empire"), as party of the first part, and CORTEZ EXPLORATION, L.L.C. and WINDMILL OIL & GAS, L.L.C., as parties of the second part. Hereafter, Cortez Exploration, L.L.C. will sometimes be referred to as "Cortez" and Windmill Oil & Gas, L.L.C. will sometimes be referred to as "Windmill". On some occasions, Cortez and Windmill will be collectively referred to as the "Cortez Group".

RECITALS

1. The Gabbs Valley Prospect ("Prospect") covers approximately 92,825 gross acres, with no depth limitations, in Nye and Mineral Counties, Nevada, which acreage is owned by the parties to this Agreement.

2. A number of leases or portions of leases making up the Prospect have been included in an oil and gas unit formed pursuant to that certain agreement titled "Unit Agreement for the Development and Operation of the Paradise Unit Area Counties of Nye and Mineral, State of Nevada", dated April 14, 2010, No. ANVN88316X (hereinafter, the "Paradise Unit Agreement"). A copy of the Paradise Unit Agreement is attached hereto as Exhibit "A". The unit formed under the Paradise Unit Agreement is hereafter referred to as the "Paradise Unit". Prospect leases wholly or partially included in the Paradise Unit are identified and described on Exhibit "B" attached to this Agreement, and are hereafter referred to as the "Paradise Unit Leases".

3. There are additional leases included in the Prospect that are not part of the Paradise Unit. Prospect leases or portions of Prospect leases not included in the Paradise Unit are identified and described on Exhibit "C" attached to this Agreement, and are hereafter referred to as the "Non-Unit Leases".

4. The Cortez Group owns 41% (of 8/8ths) leasehold interest, record title interest and working interest in all of the Prospect Leases and 41% of 80% (of 8/8ths) net revenue interest in each of the Prospect Leases free and clear of other burdens, liens and encumbrances. Empire desires to acquire by farmout an additional working interest in the Paradise Unit Leases.

5. The Cortez Group and Empire have agreed, at the request of Empire, that the Cortez Group will assign to Empire the Cortez Group's 41**%** gross working interest (which is **41%** of 8/8 net revenue interest) in all of the "Prospect" Leases concurrently with the fully execution of this Agreement. At this time, the Cortez Group's ownership in the Prospect Leases is as follows:

Cortez Exploration, L.L.C.	Windmill Oil & Gas, L.L.C.
38.5%	
	2.5%

Empire will earn a working interest in the Paradise Unit Leases, owned by the CortezGroup only, by payment of 100% of the lease rentals on the Paradise Unit Leases coming due subsequent to June1, 2010, within the terms of this Agreement, and after Empire drills the Paradise Unit No. 2-12 Well, and otherwise performs in accordance with the terms and provisions as set forth below.

6. Concurrently with the execution of this Agreement, Cortez Exploration, L.L.C. will execute an agency agreement or anyother required documents so as to make Empire the designated "Unit Operator", to be effective with commencement of drilling operations on the Paradise Unit No. 2-12 Well.

I. PAYMENT OF RENTALS AS TO PARADISE UNIT LEASES

A. As a part of this Agreement, Empire has paid tl-e Paradise Unit lease rentals which became due in June of 2010. In addition thereto, during the time that Empire holds the Cortez Group working interest in the Paradise Leases, which is a 41% of 8/8ths gross working interest and a 41% of 80% net revenue interest, Empire shall pay the 41% of rentals due under the Paradise Unit Leases on behalf of the Cortez Group. At such time as Empire has reassigned to the Cortez Group a collective 20.5% (of 8/8ths) working interest in the Paradise Unit Leases, Empire shall pay 77.5% of the rentals due under the Paradise Unit Leases and the Cortez Group and Punto De Luz shall pay the remaining portion of such rentals.

II. EARNING OBLIGATIONS FOR PARADISE UNIT LEASES

A. Assignment to Empire.

Upon the full execution of this Agreement, the Cortez Group shall, at the request of Empire, execute and deliver to Empire assignments of all of the Cortez Group's working interest and the agreed upon corresponding net revenue interest in the Prospect Leases.

B. Obligation To Drill The Paradise Unit No. 2-12 Well.

The initial test well with respect to the Paradise Unit Leases will be known as the "Empire ParadiseUnit No. 2-12Well". The Empire Paradise Unit No. 2-12 Wellshall be located in the Paradise Unit, on Lease No. N-599901, in the SE/4 of the SE/4 of the NE/4 of Section 12-T12N-R34E, and shall be drilled to the lesser of (i) 6,000 feet below the surface, (ii) 500 feet into the Triassic formation, or (iii) any lesser depth where oil and/or gas is found in commercial quantities. Empire shall commence the drilling of the Empire Paradise Unit No. 2-12 Well on or before the 15th day of August, 2010, or at such other time as may be agreed upon by the Cortez Group in writing. Empire shall earn the working interest in the Paradise Unit Leases contemplated in this Agreement when either (a) Empire has completed and equipped the Empire Paradise Unit No. 2-12 Well into pipeline connections or tanks, should such well produce oil and/or gas, or (b) Empire has properly plugged and abandoned such well in accordance with the rules and regulations of the BLM, should such well be a dry hole.

C. Costs for Drilling and Completing the Empire Paradise Unit Nol. 2-12 Well.

The Cortez Group shall not have any responsibility to pay the costs to drill the Empire Paradise Unit No. 2-12 Well. The Cortez Group likewise shall not have any responsibility to pay the costs to complete and equip the Empire Paradise Unit No. 2-12 Well into pipeline connections or tanks, or to abandon the Empire Paradise Unit No. 2-12 Well should it be a dry hole, as the case may be. As between Empire and the Cortez Group, the manner in which to drill and complete the Empire Paradise Unit No. 2-12 Well and the costs to be incurred to drill and complete the Empire Paradise Unit No. 2-12 Well shall be in the sole discretion of Empire, consistent with good oil field practice. In this regard, Empire is not required to prepare an AFE or obtain approval of an AFE from the Cortez Group with respect to the drilling and completion (or abandonment) of the Empire Paradise Unit No. 2-12 Well. All reference to the Empire Paradise Unit No. 2-12 Well in this Section II.C shall apply equally to any substitute well under Section II.D, immediately below.

D. Substitute Well(s).

If, in Empire's opinion, the drilling or further drilling of the Empire Paradise Unit No. 2-12 Well as set forth in Section II.B above is rendered impossible or impractical prior to satisfying the requirements of Section II.B above, Empire shall notify the Cortez Group of the same as provided in this Agreement. Empire shall have the option, but not the obligation, of drilling a substitute well in a reasonable location of Empire's choosing. If Empire chooses not to drill a substitute well, then Empire shall promptly reassign the entirety of the Paradise Unit Leases and corresponding net revenue interest to the Cortez Group using BLM Form 3000-3 in recordable form sothat the Cortez Group may record such assignments in Nye and Mineral Counties, Nevada. This Agreement shall terminate upon the transmittal of such reassignment from Empire to the Cortez Group.

III. REASSIGNMENT TO CORTEZ WITH REPSECT TO THE PARADISE UNIT LEASES

A. Reassignment if the Empire Paradise Unit No. 2-12 Well is a Dry Hole.

If Empire drills the Empire Paradise Unit No. 2-12 Well to the requirements of Section II above, but such well is a dry hole, then Empire, upon completion of the plugging and abandonment of such well, shall reassign to the Cortez Group 20.5% (of 8/8ths) of the working interest and corresponding net revenue interest in the Paradise Unit Leases using BLM Form 3000-3.

B. Reassignment if the Empire Paradise Unit No. 2-12 Well Produces in Paying Quantities.

If the Empire Paradise Unit No. 2-12 Well produces hydrocarbons, Empire shall retain all of the working interest and corresponding net revenue interest in the NE/4 of Section 12-T12N-R34E (the "Spacing Unit") in the Paradise Unit Leases (i.e., the 41% (of 8/8ths) working interest and corresponding net revenue interest assigned by the Cortez Group pursuant

to Section III.A above, until the Empire Paradise Unit No. 2-12 Well reaches Payout, as defined in Section III.D below. At such time as the Empire Paradise Unit No. 2-12 Well reaches Payout, Empire shall reassign to the Cortez Group 20.5% (of8/8ths) of the working interest and corresponding net revenue interest in the Paradise Unit Leases, and Empire shall retain 77.5% (of 8/8ths) of the working interest and corresponding net revenue interest in the Paradise Unit Leases.

C. Reassignment if the Empire Paradise Unit No. 2-12 Well is Not Drilled.

If Empire does not drill the Empire Paradise Unit No. 2-12 Well within the time provided in Section II.B above, then Empire, if it has received assignment, shall promptly reassign the entirety of the Paradise Unit Leases and corresponding net revenue interest to the Cortez Group using BLM Form 3000-3.

D. Definition of Payout.

"Payout" for this Agreement shall be on a well-by-well basis, and shall be deemed to occur for each well when sales proceeds actually received from production from the well, after deduction of taxes and Nevada taxes on production, landowner's royalty and overriding royalty interest shall equal 100% of the actual cost of drilling, testing, completing, equipping and operating the well to the point of payout, and treating, processing, transporting and marketing production therefrom.

IV. OPERATIONS WITH RESPECT TO PARADISE UNIT

A. Empire To Be Unit Operator.

The Cortez Group shall take the actions necessary so that Empire is appointed as the replacement Unit Operator as soon as possible, orat the request of Empire.

B. Unit Operating Agreement.

Subject to all provisions of the "Paradise Unit Agreement", operations for the Paradise Unit shall be conducted pursuant to the Unit Operating Agreement, attached hereto as Exhibit "D", except that with respect to any inconsistencies between this Agreement and the Unit Operating Agreement, this Agreement shall govern. If additional Paradise Unit wells are proposed subsequent to the drilling, completion and/or abandonment or the Empire Paradise Unit No. 2-12 Well, then such additional wells shall be drilled pursuant to the terms and provisions of the Unit Operating Agreement.

V. AREA OF MUTUAL INTEREST

Empire and the Cortez Group hereby form an area of mutual interest ("AMI") covering Townships 11, 12, 13 and 14 North and Ranges 34, 35 and 36 East MDM, Nevada. This AMI shall remain in effect for five (5) years from the date of this Agreement.

If during the five (5) year duration of such AMI any party should acquire ("Acquiring Party") anyoil and gas leases, leasehold interest or mineral interest within the AMI by any means including, but not limited to, purchase, top lease, farmins, farmouts, farmout options, or acreage contributions, then the Acquiring Partyshall immediately notify the Non-Acquiring Parties, in writing, of such acquisition, setting forth the nature of the interest acquired, all terms, provisions and contracts related to the acquisition (along with copies of all documents relating to the acquisitions or rights to earn a leasehold or mineral interest) and the price paid therefor. The Non-Acquiring Parties shall have a period of thirty (30) days following receipt of notice to elect in writing, with all appropriate documentation relating to the acquisition, to purchase at the Acquiring Party's cost and acquire its Ownership Percentage (defined below) of such acquisition by remitting the required payment to the Acquiring Party, during such thirty (30) day period. If the interest is to be earned by drilling and/or shooting seismic, the Non-Acquiring Parties must ratify all appropriate agreements within the thirty (30) days period. Notwithstanding the preceding sentence, such thirty (30) day notice period may be reduced due to applicable contractual obligations or limitations (e.g., farmout terms or lease expiration dates), in which case the Non-Acquiring Parties may be required to respond in a shorter time period as may be reasonably appropriate under the circumstances. In the event one or more parties receiving an offer pursuant to this paragraph do not accept same, the Acquiring Party shall first offer the interest not accepted by a party to the other parties on a pro rata basis. If any of the interest that was previously turned down by a party is available after it has been turned down by the remaining parties, the Acquiring Party shall hold such interest free and clear of any further AMI obligations of this Agreement. However,notwithstanding anything to the contrary contained herein, any interest within the AMI acquired by any party as a result of the acquisition of the stock or substantially all of the assets of another entity or any transaction in which such interests are not of material value in relation to the entire transaction, shall be excluded from and not subject to this AMI.

The parties specifically agree that if a lease or interest covers land both inside and outside an AMI, the Acquiring Party must offer the entire lease or interest to the other parties and if the party elects to acquire an interest in the lease, it must agree to proportionately acquire an interest in the entire lease or interest even if a portion of the lease or interest lies outside the AMI.

Any interest acquired within the AMI shall be subject to the provisions of the Unit Operating Agreement, or Joint Operating Agreement, as applicable.

As used herein, "Ownership Percentage" shall be the same percentage as the parties' then-ownership in the Paradise Unit. To the extent the parties' then-ownership in the Paradise Unit is not uniform throughout the Unit, then Ownership Percentage shall be the average of each party's ownership interest on an acreage basis.

VI. REPRESENTATIONS AND WARRANTIES BY THE CORTEZ GROUP; LIMITED INDEMNITY

A. Warranty of Title.

Cortez and Windmill, and each of them, represent and warrant that as of the date of this Agreement their respective title to the Prospect Leases is free and clear from any prior conveyance, lien or encumbrance made or suffered by them, or by any person by, through or under them, which diminishes, limits or burdens the rights and interests that Empire has the right to earn under this Agreement. Cortez and Windmill, and each of them, further warrant that until such time as the Non-Unit Leases, orany of them, are assigned to Empire under the terms of this Agreement, neither Cortez nor Windmill will make or suffer, or allow to be made or suffered by any person by through or under them, any conveyance, lien or encumbrance with respect to the Non-Unit Leases.

B. No Third Party Acquisitions.

Cortez and Windmill, and each of them, represent and warrant that as of the date of this Agreement, there are no agreements with any person not a party to this Agreement that in any manner qualify, alter or otherwise affect the rights and obligations of the parties under this Agreement.

C. Limited Indemnity.

Cortez shall indemnify, defend, protect and hold harmless Empire from and against any and all loss, cost or liability with respect to any lien, encumbrance or claim made by James S. Isern, Isern Oil Company, Inc., or either of them, and any successors or assigns of either of them, making any claims affecting title to either the Paradise Unit Leases or the Non Unit Leases.

VII. NON-PARADISE UNIT LEASES

A. Empire's Option With Respect to the Non-Unit Leases.

For a period of one (1) year from June 1, 2010, Empire shall have the optional right to drill an additional test well on any of the Non-Unit Leases that have not expired. In order to maintain such option, Empire must pay100% of the rentals that become due under each of the Non-Unit Leases. However, Empire shall have the right to elect, on a lease-by-lease basis during this one (1) year term, whether to release its option as to a particular Non-Unit Lease (or Leases), while still maintaining its option to the remaining Non-Unit Leases. Should Empire elect to release a Non-Unit Lease from the option provided in this Agreement, Empire shall give written notice of such election to the Cortez Group no later than thirty (30) days in advance of the date the rental is due on such Non-Unit Lease.

B. Drilling the Non-Unit Test Well.

As between Empire and the Cortez Group, Empire shall have the right to select the location for the Non-Unit Test Well. This Non-Unit Test Well shall be drilled and earning rights achieved under the same terms and conditions as previously set forth for the drilling of the Empire Paradise Unit No. 2-12 Well, with Empire earning 98% of the 160 acre governmental drilling and spacing unit surrounding the Non-Unit Test Well until payout and earning one-half (1/2) of the Cortez Group's 41% (of 8/8ths) working interest in the remaining Non-Unit Leases.

C. Reassignment of Non-Unit Leases.

In the event that Empire does not exercise its optional right to drill a Non Unit Test Well within the term of this Agreement, then it shall immediately reassign all of the Cortez Group's interest to them in their proportion of ownership.

D. Operator/Joint Operating Agreement.

Empire shall be the Operator with respect to the drilling, completion and/or abandonment of the optional Non-Unit Test Well and all operations for such Non Unit Leases shall be conducted pursuant to a Joint Operating Agreement, a copy of which is attached hereto as Exhibit "D".

VIII. NOTICES

All notices or other communications required or permitted hereunder shall be provided in writing and shall be delivered to the authorized representatives of Empire or the Cortez Group, as the case may be, by either (i) personal delivery, (ii) certified mail, return receipt requested, (iii) overnight delivery service, or (iv) facsimile, as follows:

To Empire:

Empire Petroleum Corporation
8801 South Yale, Suite 120
Tulsa, Oklahoma 74137-3575
Attn: A. E. Whitehead
Facsimile: (918) 488-1530

To the Cortez Group:

Cortez Exploration, L.L.C.
16786 Kincheloe Road
Siloam Springs, Arkansas 72761
Attn: O. F. Duffield, Manager
Facsimile: (479) 524-6057

IX. MISCELLANEOUS PROVISIONS

A. Successors and Assigns.

This Agreement shall not be assigned by any party without the prior written approval of the non-assigning parties, which approval shall not be unreasonably withheld, conditioned or delayed.

B. Headings.

Headings used in this Agreement are inserted for convenience only and shall not affect the interpretation of any of the provisions of this Agreement.

C. Relationship of Parties.

This Agreement does not constitute the parties hereto as a partnership, mining partnership, mining partnership, joint venture, incorporated association or any other joint relationship, it being intended that liabilities and obligations of the parties hereunder shall be several and not joint. Each party shall be responsible only for its obligations and liabilities as set out herein and no party shall be responsible for those of any other party.

D. Further Assurances.

The parties agree to execute such further instruments and documents and to diligently undertake such actions as may be necessary or appropriate in connection with the subject matter of this Agreement and to use their best efforts to do those things reasonably necessary to give full force and effect to the terms and intent of this Agreement.

E. Entire Agreement.

This Agreement, including the Exhibits attached hereto, constitutes the entire agreement and understanding of the parties hereto with respect to the transactions contemplated hereby, and supersedes all prior understandings, discussions and agreements between the parties relating to the subject matter hereof.

F. Laws Governing This Agreement.

This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

G. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, successors and assigns.

H. Counterpart Execution.

This Agreement may be executed in any number of counterparts, each of such shall be considered an original for all purposes.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates set forth below.

EMPIRE PETROLEUM CORPORATION

6-11-10 (Date) By: /s/ A. E. Whitehead
A. E. Whitehead, President

CORTEZ EXPLORTION, L.L.C.

6-15-10 (Date) By: /s/ O. F. Duffield
O. F. Duffield, Manager

WINDMILL OIL & GAS, L.L.C.

6-11-10 (Date) By: /s/ Richard L. Harris
Richard L. Harris, Manager

EXHIBIT 31

CERTIFICATION

I, Albert E. Whitehead, certify that:

1. I have reviewed this annual report on Form 10-K of Empire Petroleum Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 21, 2012

/s/ Albert E. Whitehead
Albert E. Whitehead, Chief Executive Officer (and principal financial officer)

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Empire Petroleum Corporation (the "Company") on Form 10-K for the period ending December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert E. Whitehead, Chief Executive Officer (and principal financial officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 21, 2012

/s/ Albert E. Whitehead
Albert E. Whitehead, Chief Executive
Officer (and principal financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be considered filed as part of the Report.