

**STATE/FEE  
WATERFLOOD UNIT**

**UNIT AGREEMENT  
FOR THE DEVELOPMENT AND  
OPERATION  
OF THE**

**EAST HOBBS (SAN ANDRES) UNIT  
LEA COUNTY, NEW MEXICO  
NO. \_\_\_\_\_**

Oil Conservation Commission

Case No. \_\_\_\_\_

Exhibit No. 12

Rev.1/92

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
EAST HOBBS (SAN ANDRES) UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
EAST HOBBS (SAN ANDRES) UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 14th day of February, 2003, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH THAT:

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 Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the East Hobbs (San Andres) Unit, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil and gas recovery operations; conserve natural resources, prevent waste and secure the 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 Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: 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 of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.
- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 50 feet above the top of the San Andres formation and 50 feet below the base of the P-5 marker in the San Andres formation, said San Andres interval occurring between 4451 feet and 4637 feet in the EnerQuest Resources, LLC, Carrie O. Davis Well No. 5 located 330 feet from the west line and 1310 feet from the south line of Section 29, Township 18 South, Range 39 East, N.M.P.M., Lea County, New Mexico as recorded on the density-neutron log of said well dated June 26, 1997.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, East Hobbs (San Andres) Unit, Lea County, New Mexico".
- (n) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 920.00 acres, more or less.

Exhibit "A" to the extent known to Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of

ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefore with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:

(1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

(3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain in the same ratio one to another.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized

Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

**SECTION 6. UNIT OPERATOR:** EnerQuest Resources, LLC is hereby designated as Unit Operator, and by signing this instrument as Unit Operator it agrees and consents to accept the duties and obligations of Unit Operator for the operation, 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 when such an interest is owned by it.

**SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR:** Unit Operator shall have the right to resign at any time, 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 six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner and Division unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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 equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, 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. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

**SECTION 8. SUCCESSOR UNIT OPERATOR:** Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator 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 Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

**SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT:** Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with 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 hereunder 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 the 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 agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. 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. Upon request therefore, acceptable evidence of title to said rights shall be deposited with said 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.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not. The location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

**SECTION 12. TRACT PARTICIPATION:** The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined in accordance with the following formulas:

Acreege (2.5%) + Last 12 month production (97.5%)

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 27, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 26, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

**SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION:** On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties hereto.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless

of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

- (i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and
- (ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

**SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES:** All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to

formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

**SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE:** Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

**SECTION 16. ROYALTY SETTLEMENT:** The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division; provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate

recovery, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

**SECTION 17. RENTAL SETTLEMENT:** Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefore under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

**SECTION 18. 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 State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

**SECTION 19. DRAINAGE:** The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

**SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED:** The terms, conditions and provision 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 Commissioner, as to State leases, shall 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 State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. 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 of lands 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 part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall 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 land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas 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 terms of this agreement.

(e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws shall continue in force and effect thereafter.

(f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

**SECTION 21. 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 subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer or any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefore until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

**SECTION 22. EFFECTIVE DATE AND TERM:** This agreement shall become binding upon each party who executes or ratified it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and
- (d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before January 31, 2004, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

**SECTION 23. APPEARANCES:** Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

**SECTION 24. NOTICES:** All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

**SECTION 25. NO WAIVER OF CERTAIN RIGHTS:** Nothing in this agreement contained 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 wherein said unitized lands are located, or rules or regulations issued there under in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

**SECTION 26. LOSS OF TITLE:** In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract

shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of 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.

**SECTION 27. NONJOINDER AND SUBSEQUENT JOINDER:** As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in 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 effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month

following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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 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.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter place by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

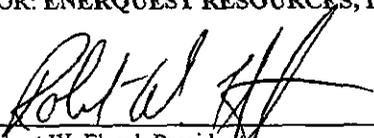
SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Unit Participation of fifty percent (50%) or more and the Commissioner.

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

OPERATOR: ENERQUEST RESOURCES, LLC

Date: 2-14-03

By:   
Robert W. Floyd, President  
Address: P.O. Box 11150  
Midland, Texas 79702

WORKING INTEREST OWNERS

EnerQuest Oil & Gas, Ltd.  
By: EnerQuest Property Management, LLC  
Sole general partner of EnerQuest Oil & Gas, Ltd.

Date: 2-14-03

By: [Signature]  
Robert W. Floyd, President of EnerQuest Property  
Management, LLC  
Address: P.O. Box 11150  
Midland, Texas 79702

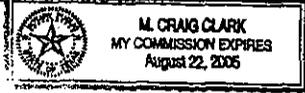
ATTEST:

\_\_\_\_\_  
By: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_

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

STATE OF TEXAS §  
COUNTY OF MIDLAND §

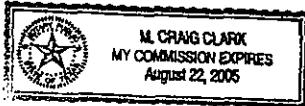
The foregoing instrument was acknowledged before me this 14th day of February, 2003, by Robert W. Floyd, President of EnerQuest Resources, LLC, a Texas limited liability company, on behalf of said limited liability company.



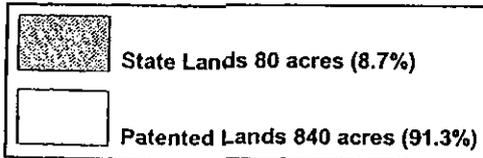
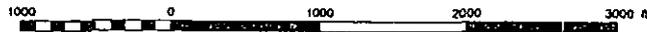
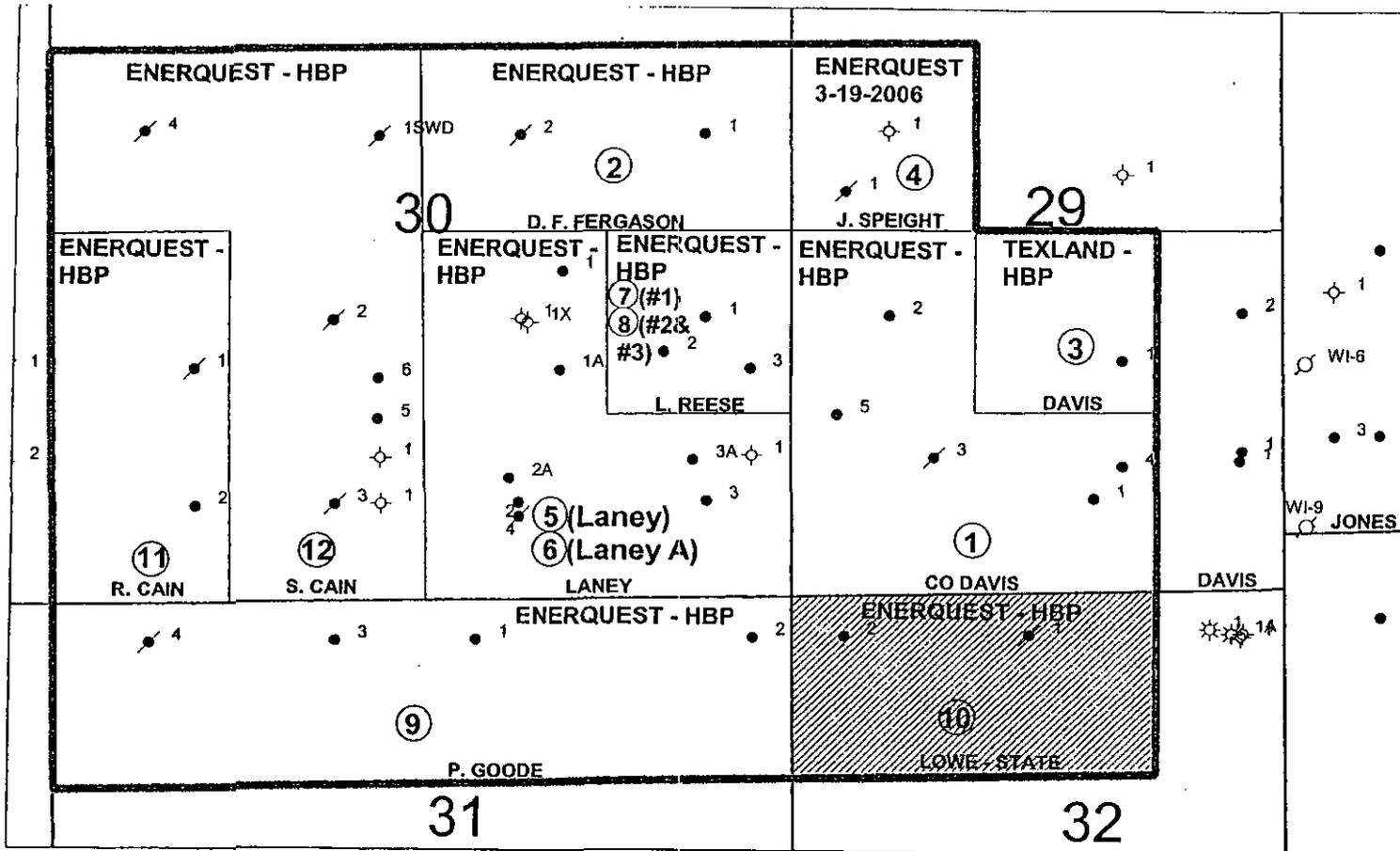
[Signature]  
NOTARY PUBLIC, STATE OF TEXAS

STATE OF TEXAS §  
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 14th day of February, 2003, by Robert W. Floyd, President of EnerQuest Property Management, LLC, a Texas limited liability company, as general partner of ENERQUEST OIL & GAS, LTD., a Texas limited partnership, on behalf of said limited liability company and said limited partnership.



[Signature]  
NOTARY PUBLIC, STATE OF TEXAS



③ Tract Number      ——— Unit Outline

**EXHIBIT A**

<b>ENERQUEST RESOURCES, LLC</b>		
<b>EAST HOBBS (SAN ANDRES) UNIT</b>		
920 ACRES		
Lea County, New Mexico		
T18S - R39E		
Project:	Date: February 14, 2003	Geologist:
Area:	Scale: 1"=1000'	Geophysicist:
Prospect:	C.I.:	Engineer:

**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serial #, Lease Status	Royalty Ownership	Interest	Working Interest	Interest	Overriding Royalty	Interest		
1	Sec. 29: S/2 SW/4, NW/4 SW/4	120	HBP	Eram Ali	0.00010821	Eram Ali	0.00987500	Charter Royalty 94-1 Acq Fund	0.05250000		
				Douglas H. Christensen	0.00005411	Douglas H. Christensen	0.00493750	James R. Small	0.02250000		
				<b>CARRIE O. DAVIS</b>		Crump Family Partnership Ltd.	0.00114705	Crump Family Partnership Ltd.	0.10467500	Marshall R. Young Oil Company	0.00666667
						Carleton Davis	0.00208400	Dingus Investments, Inc.	0.07241669	George M. Young, Sr.	0.00333333
						Dingus Investments, Inc.	0.00079298	EnerQuest Oil & Gas, Ltd.	0.45659531		
						Donna E. Dyer	0.00312500	Lone Star Oil & Gas	0.00493750		
						Sandra J. Eaton	0.00295150	Parsley Resources, Inc.	0.05069162		
						EnerQuest Oil & Gas, Ltd.	0.00307324	Christopher P. Renaud	0.03517969		
						Gods House of Prayer	0.05833400	Armand Smith, Jr.	0.05069169		
						Virginia Ann Jackson	0.00196800				
						Theodore Johnson Estate	0.00625000				
						Judson Properties, Ltd.	0.00065567				
						LAJ Corporation	0.00065567				
						Dorothy Locastro	0.00062500				
						Lone Star Oil & Gas	0.00005411				
						Elizabeth Love	0.00680500				
						The Martin Living Trust	0.00065566				
						New Mexico Boys and Girls Ranch	0.00208300				
						Mary J. Parker	0.00393400				
						Matthew J. Parsley	0.00068563				
		Sal Ribera	0.01180600								
		Rowley Bros	0.00833400								
		Armand Smith, Jr.	0.00068563								
		Sugarberry Land Company	0.00205604								
		David A. Williams	0.00312500								
		Virginia M. Wingard	0.00295150								
2	Sec. 30: S/2 NE/4	80	HBP	Eram Ali	0.00017414	Eram Ali	0.00973947	Charter Royalty 94-1 Acq Fund	0.04790625		
				<b>D.F. FERGASON</b>		BKKA	0.01171880	FAO Florence Branaman	0.00625000	James R. Small	0.02053125
						Roy G. Barton, Jr.	0.01171880	Douglas H. Christensen	0.00486974	Marshall R. Young Oil Company	0.00177084
						Roy G. Barton, Sr & Opal Barton	0.00468750	Crump Family Partnership Ltd.	0.10323821	George M. Young, Sr.	0.00088541
						Clare C. Beall	0.00156250	Dingus Investments, Inc.	0.07142266		
						Mildred M. Day Bernard	0.00234370	EnerQuest Oil & Gas, Ltd.	0.45032823		

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**Exhibit "B"**  
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**Lea County, New Mexico**

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				Mary Payne Brisbarre	0.00911460	Lone Star Oil & Gas	0.00486974		
				Douglas H. Christensen	0.00007243	Parsley Resources, Inc.	0.04999571		
				Dr. Ben M. Colletti	0.00468750	Christopher P. Renaud	0.03469679		
				Genevieve Ferguson Colletti	0.01997228	Armand Smith, Jr.	0.04999570		
				Crump Family Partnership Ltd.	0.00153549	FAO Andrew A. Stoudt	0.00625000		
				Helen A. Dean	0.00152990	FAO Mary E. Wrynn	0.00625000		
				Ivan C. Dean	0.00611980				
				Dingus Investments, Inc.	0.00115430				
				Kenneth L. & Jane E. Edwards	0.00260420				
				Ervin Elsea	0.00130200				
				EnerQuest Oil & Gas, Ltd.	0.00496030				
				Nellie L. Fleming	0.00026041				
				Headington Oil Company, LP	0.00390620				
				Charles Fred Jennings	0.00009766				
				James Roger Jennings	0.00009766				
				Jo Johnson	0.00390630				
				M.H. Lang	0.00039060				
				Jewel Lansing & Annette Lansing J/T	0.00065104				
				Eva Mae Lewis	0.00234370				
				Lone Star Oil & Gas	0.00007243				
				Michelle Martinez	0.00130210				
				Virginia H. Jennings Matthews	0.00006510				
				Margaret Ferguson Mauk	0.00998609				
				Elizabeth Jennings McCormick	0.00026041				
				Margaret Peabody Newkom	0.00065105				
				Kendall B. Niceley	0.00078130				
				Matthew J. Parsley	0.00101060				
				Pecos Bend Royalties, Inc.	0.00039060				
				Christine Riley	0.00130210				
				Russell T. Rudy	0.00781250				
				Armand Smith, Jr.	0.00101060				
				Sugarberry Land Company	0.00303060				
				Mrs. Harry Titzkowski	0.00156250				
				Wanda K. Vandenbergh	0.00026041				

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**Lea County, New Mexico**

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				Carolyn Wardwell	0.00458980				
3	Sec.29:NW/4 SW/4	40	HBP	Eram Ali	0.00024590	Eram Ali	0.00621448	Peggy Pratt Chartier Estate	0.05468750
	<b>DAVIS</b>			EnerQuest Oil & Gas, Ltd.	0.00491890	David H. Arrington	0.28586660		
				Carleton Davis	0.00208330	Bruce D. Brockman	0.00142933		
				Dingus Investments, Inc.	0.00077880	Michael E. Chapman	0.00142933		
				Donna E. Dyer	0.00312500	Keith W. Davis	0.00571733		
				Sandra J. Eaton	0.00295150	Dingus Investments, Inc.	0.03937497		
				Gods House of Prayer	0.05833330	EnerQuest Oil & Gas, Ltd.	0.16366462		
				Virginia Ann Jackson	0.00196760	JMA Oil Properties, Ltd.	0.01429333		
				Theodore R. Johnson Estate	0.00625000	Sydney E. Niblo	0.00571733		
				Judson Properties, Ltd.	0.00065580	Parsley Resources, Inc.	0.01966262		
				LAJ Corporation	0.00065580	W.F. Pendleton	0.00571733		
				Dorothy L. Locastro	0.00062500	Gary Phillips	0.00142933		
				Elizabeth N. Love	0.00562500	Armand Smith, Jr.	0.01966262		
				The Martin Living Trust	0.00065590	Gordon E. Sommers	0.00571733		
				New Mexico Boys and Girls Ranch	0.00208340	Texland Limited Partnership, I	0.24155728		
				Mary Parker	0.00393520	H.C. Zachry	0.00285867		
				Matthew J. Parsley	0.00077890				
				Salvatore Ribera	0.01180560				
				Rowley Bros.	0.00833340				
				Armand Smith, Jr.	0.00077890				
				Sugarberry Land Company	0.00233650				
				David A. Williams	0.00312500				
				Virginia M. Wingard	0.00295130				
4	Sec.29:SW/4 NW/4	40	Expires 3/19/06	June D. Speight	0.10156250	Eram Ali	0.01199010		
				Ellis Carl Browning & Evelyn Browning	0.00954861	Douglas H. Christensen	0.00364775		
	<b>JUNE SPEIGHT</b>			Vera Browning Stephens	0.00954861	Crump Family Partnership Ltd.	0.03575078		
				Nelda Charlene Browning	0.00954861	Dingus Investments, Inc.	0.08048336		
				Nancy L. Willman, Trustee	0.00954861	EnerQuest Oil & Gas, Ltd.	0.42030482		
				Grady Hicks	0.00954861	Lone Star Oil & Gas	0.00364775		
				Deborah A. Smith	0.00318287	Parsley Resources, Inc.	0.04748330		

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**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serial #, Lease Status	Royalty Ownership	Interest	Working Interest	Interest	Overriding Royalty	Interest
				Linda Browning Kinman	0.00318287	Christopher P. Renaud	0.02650802		
				Rex Taylor Browning	0.00318287	Armand Smith, Jr.	0.05228800		
				William John Nolan	0.02343750	Anne Key Davis	0.02019990		
				Jane Harris	0.02083334	Hugh B. Key, II	0.01552172		
						Julie Ann Hopkins Trust	0.00776089		
						Kite Royalty, LLC	0.01381118		
						Mark Colver Hopkins Trust	0.01009999		
						White Star Royalty Co., LLC	0.00638872		
						Murray E. Helmers	0.04098872		
5	Sec. 30: NW1/4 SE1/4, S/2 SE/4	60	HBP	Crump Family Partnership Ltd.	0.00196761	Crump Family Partnership Ltd.	0.07842910		
				Jana Sue Barry, ssp	0.00023872	Lois Sherrerd Clements Trust	0.00607639		
	LANEY			Ro Jean Booth	0.00525174	Nancy Hershberger	0.00151910		
				Claudine Bradley, ssp	0.00023872	Julie Ann Hopkins Trust	0.02221680		
				Ruth Fosberg, ssp	0.00095486	Mark Colver Hopkins Trust	0.02221680		
				Mary Virginia Gibbs	0.00477431	Hugh B. Key, II, ssp	0.04443360		
				Velma E. Gilmer	0.02005208	Carolyn V. Larson	0.00151910		
				Julie Ann Hopkins Trust	0.00055416	Virginia G. Olincy Oil Trust	0.01822917		
				Mark Colver Hopkins Trust	0.00055416	Marie Urfer Stinnett	0.00303820		
				Hugh B. Key, II, ssp	0.00110832	Anne Key Davis	0.04443360		
				N. Duane & Dorthea L.J. Laney Revocable Trust	0.00023872	Urfer Family Trust Dated 4/28/99	0.00303820		
				Vera N. Laney, ssp	0.02864583	Robert Gordon Van Vranken, Jr.	0.00151910		
				A. Jeanette Laney Trust	0.00572917	James F. Van Vranken	0.00151910		
				Anna Lois Lynch	0.00477431	Dingus Investments, Inc.	0.05570290		
				Loyce M. Matthews Trust	0.00477430	Douglas H. Christensen	0.00375645		
				P.T. Matthews Trust	0.00477430	Eram All	0.00751289		
				Rev. Ray D. Pinson	0.00525174	Armand Smith, Jr.	0.03853191		
				Reta Joyce Stone	0.00023872	Christopher P. Renaud	0.02756735		
				Anne Key Davis	0.00110832	Kite Royalty Co., LLC	0.04443360		
				Dingus Investments, Inc.	0.00136124	EnerQuest Oil & Gas, Ltd.	0.34724354		
				Douglas H. Christensen	0.00009281	Parsley Resources, Inc.	0.03853191		
				Eram All	0.00018563	Artamyse Watts Oil, Ltd.	0.05977475		

**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serial #, Lease Status	Royalty Ownership	Interest	Working Interest	Interest	Overriding Royalty	Interest
				Armand Smith, Jr.	0.00097538	Lone Star Oil & Gas	0.00375645		
				Matthew J. Parsley	0.00097538				
				Evelyn M. Laney	0.00954861				
				Sugarberry Land Company	0.00352686				
				Kite Royalty Co., LLC	0.00110832				
				Viersen Oil & Gas Co.	0.00886657				
				EnerQuest Oil & Gas, Ltd.	0.00567221				
				Artamyse Watts Oil, Ltd.	0.00136409				
				Lone Star Oil & Gas	0.00009280				
6	Sec. 30: NW/4 SE/4, S/2 SE/4	60	HBP	Eram Ali	0.00018563	Eram Ali	0.01396442	Artamyse Watts Oil, Ltd.	0.00853925
				Jana Sue Barry, ssp	0.00023872	Douglas H. Christensen	0.00698220		
	<b>LANEY A</b>			Ro Jean Booth	0.00525174	Lois Sherrerd Clements Trust	0.00958602		
				Claudine Bradley, ssp	0.00023872	Anne Key Davis, ssp	0.04443360		
				Douglas H. Christensen	0.00009281	Anne Key Davis	0.02566502		
				Crump Family Partnership Ltd.	0.00196761	Dingus Investments, Inc.	0.08978358		
				Anne Key Davis, ssp	0.00110832	EnerQuest Oil & Gas, Ltd.	0.25485461		
				Dingus Investments, Inc.	0.00136124	Nancy Hershberger	0.00239653		
				EnerQuest Oil & Gas, Ltd.	0.00567221	Julie Ann Hopkins Trust	0.02221680		
				Ruth Fosberg, ssp	0.00095486	Mark Collver Hopkins Trust	0.03504936		
				Mary Virginia Gibbs	0.00477431	Hugh B. Key, II, ssp	0.04443360		
				Velma E. Gilmer Trust	0.02005208	Kite Royalty Co., LLC	0.03504933		
				Julie Ann Hopkins Trust	0.00055416	Carolyn V. Larson	0.00239653		
				Mark Collver Hopkins Trust	0.00055416	Lone Star Oil & Gas	0.00698221		
				Hugh B. Key, II, ssp	0.00110832	Virginia G. Olincy Oil Trust	0.02875825		
				Kite Royalty Co., LLC	0.00055416	Parsley Resources, Inc.	0.07161998		
				A. Jeanette Laney Trust	0.00572917	Christopher P. Renaud	0.05124011		
				N. Duane & Dorthea L.J. Laney Revocable Trust	0.00023872	Armand Smith, Jr.	0.07162009		
				Evelyn M. Laney	0.00954861	Marie Urfer Stinnett	0.00479306		
				Vera N. Laney, ssp	0.02864583	Urfer Family Trust dated 4/28/99	0.00479306		
				Lone Star Oil & Gas	0.00009281	James F. Van Vranken	0.00239653		
				Anna Lois Lynch Revocable Trust	0.00477431	Robert Gordon Van Vranken, Jr.	0.00239653		

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**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serial #, Lease Status	Royalty Ownership:	Interest	Working Interest	Interest	Overriding Royalty	Interest
				Loyce M. Matthews Trust	0.00477430	White Star Royalty Co., LLC	0.03504933		
				P.T. Matthews Trust	0.00477430				
				Matthew J. Parsley	0.00097538				
				Rev. Ray D. Pinson	0.00525174				
				Armand Smith, Jr.	0.00097538				
				Rita Joyce Stone, ssp	0.00023872				
				Sugarberry Land Company	0.00352686				
				Vlerson Oil & Gas Co.	0.00886657				
				Artamyse Watts Oil, Ltd.	0.00136409				
				White Star Royalty Co., LLC	0.00055416				
7	Sec. 30: NE/4 SE/4	13.33	HBP	Texas Land & Royalty Company, Ltd.	0.06007948	Eram Ali	0.01187943	Fisher Family Partnership	0.00585938
				Armand Smith, Jr.	0.00417020	Dingus Investments, Inc.	0.07717991	Ring Investments Corp.	0.00703125
	LANEY REESE 1			Christopher P. Renaud	0.00208753	EnerQuest Oil & Gas, Ltd.	0.36483499	Sophie Gimbel Estate	0.00156250
				Reese Minerals Limited Partnership	0.03125000	Christopher P. Renaud	0.01166544	Jill A. Roberts Rev. Trust dated 10/27/83	0.00268555
				Caprock Minerals, LLC	0.00173611	Parsley Resources, Inc.	0.03224288	Susan A. Unterberg	0.00268555
				Laurie Juanita Scott	0.00347222	Armand Smith, Jr.	0.04389475	Jill A. Roberts Trust U/A IX A. Appleman Trust	0.00268555
				Angela Marie Reese	0.00173611	Douglas H. Christensen	0.00160060	Susan A. Unterberg Trust U/A IX A. Appleman Trust	0.00268555
				Irene Investments, Inc.	0.00260417	Murray E. Helmers	0.11374800	Peter J. Gould	0.00195313
				Ann Hooper Taylor	0.00520833	George R. Kravis II Trust	0.08271484	Texas Land & Royalty Company, Ltd.	0.02638374
				Colleen G.M. Wallace	0.00260417	The Raymond and Bessie Kravis Foundation	0.06767578	Armand Smith, Jr.	0.00317841
				Dingus Investments, Inc.	0.00643249	Lone Star Oil & Gas	0.00160060	Christopher P. Renaud	0.00159105
				Douglas H. Christensen	0.00028643			Dingus Investments, Inc.	0.00490267
				Eram Ali	0.00096123			Douglas H. Christensen	0.00021831
				Lone Star Oil & Gas	0.00028643			Eram Ali	0.00073263
				Parsley Resources, Inc.	0.00208510			Lone Star Oil & Gas	0.00021831
								Parsley Resources, Inc.	0.00158920
8	Sec. 30: NE/4 SE/4	26.67	HBP	Texas Land & Royalty Company, Ltd.	0.06007948	Eram Ali	0.01537064	Fisher Family Partnership	0.00585938

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**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serjal #, Lease Status	Royalty Ownership	Interest	Working Interest	Interest	Overriding Royalty	Interest
	<b>LANEY REESE 2&amp;3</b>			Armand Smith, Jr.	0.00417020	Dingus Investments, Inc.	0.09930025	Ring Investments Corp.	0.00703125
				Christopher P. Renaud	0.00208753	EnerQuest Oil & Gas, Ltd.	0.45677948	Sophie Gimbel Estate	0.00156250
				Reese Minerals Limited Partnership	0.03125000	Christopher P. Renaud	0.01166544	Jill A. Roberts Rev. Trust dated 10/27/83	0.00268555
				Caprock Minerals, LLC	0.00173611	Parsley Resources, Inc.	0.04328908	Susan A. Unterberg	0.00268555
				Laurie Juanita Scott	0.00347222	Armand Smith, Jr.	0.05494095	Jill A. Roberts Trust U/A IX A. Appleman Trust	0.00268555
				Angela Marie Reese	0.00173611	Douglas H. Christensen	0.00160060	Susan A. Unterberg Trust U/A IX A. Appleman Trust	0.00268555
				Irene Investments, Inc.	0.00260417	Lone Star Oil & Gas	0.00160060	George R. Kravis II Trust	0.00590820
				Ann Hooper Taylor	0.00520833	Murray E. Helmers	0.11374800	The Raymond and Bessie Kravis Foundation	0.00483398
				Colleen G.M. Wallace	0.00260417			Peter J. Gould	0.00195313
				Dingus Investments, Inc.	0.00643249			Texas Land & Royalty Company, Ltd.	0.02638374
				Douglas H. Christensen	0.00028643			Armand Smith, Jr.	0.00317841
				Eram Ali	0.00096123			Christopher P. Renaud	0.00159105
				Lone Star Oil & Gas	0.00028643			Dingus Investments, Inc.	0.00490267
				Parsley Resources, Inc.	0.00208510			Douglas H. Christensen	0.00021831
							Eram Ali	0.00073263	
							Lone Star Oil & Gas	0.00021831	
							Parsley Resources, Inc.	0.00158920	
9	Sec. 31: N/2 N/2	160	HBP	Elmer R. Beebe	0.01093750	Eram Ali	0.01053575	Sapphire Royalties, Inc.	0.00250000
	<b>PEARL GOODE</b>			Norma L. Beebe	0.01093750	Douglas H. Christensen	0.00526787	Andrews Royalty, Inc.	0.00112500
				Kathrine Bingham	0.01093750	Crump Family Partnership Ltd.	0.11167886	Bandera Minerals, III LLC	0.00250000
				Culroy P/A	0.00130215	Dingus Investments, Inc.	0.07726212	Lowell Deckert Estate	0.01000000
				Keith Pratt Daniels	0.00585937	EnerQuest Oil & Gas, Ltd.	0.48714058	Llano Production Company	0.00071094
				Arnold Dunn	0.01093750	Lone Star Oil & Gas	0.00526787	Magnolia Royalty Company, Inc.	0.00250000
				Pearline R. Elrod	0.01093750	Parsley Resources, Inc.	0.05408638	Morgan Capital Group, Inc.	0.00250000
				Sherril Faye Halliburton & David Vincent Halliburton J/T	0.02734375	Christopher P. Renaud	0.03753357	Daniel M. Alexander & Padgett Alexander Revocable Trust	0.01000000
				Carl & Cybil Lee	0.00195313	Armand Smith, Jr.	0.05408637	James R. Small	0.00030469
				McCaig Family Partnership	0.00065098				

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**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

Tract #	Description of Land	Number of Acres	Serial #, Lease Status	Royalty Ownership	Interest	Working Interest	Interest	Overriding Royalty	Interest
				Lajuan Miles	0.02734375				
				Lynda Pratt Rast	0.00585937				
10	Sec. 32: N/2 NW/4	80	HBP	State of New Mexico	0.12500000	Eram Ali	0.00987500	Jim A. Dawson	0.00005000
	<b>LOWE STATE</b>					Douglas H. Christensen	0.00493750	Llano Production Company	0.02620000
						Crump Family Partnership Ltd.	0.10467500	Lowe Partners, LP	0.04250000
						Dingus Investments, Inc.	0.07241669	James R. Small	0.01125000
						EnerQuest Oil & Gas, Ltd.	0.45659531	Marshall R. Young Oil Company	0.00333333
						Lone Star Oil & Gas	0.00493750	George M. Young, Sr.	0.00166667
						Parsley Resources, Inc.	0.05069162		
						Christopher P. Renaud	0.03517969		
						Armand Smith, Jr.	0.05069169		
11	Sec. 30: W/2 SW/4	80	HBP	Fleischaker Mineral Company LLC	0.02083374	Eram Ali	0.00987500	Charter Royalty 94-1 Acq Fund	0.03062500
	<b>ROCKET CAIN</b>			Rocket Oil & Gas Co Ltd Partnership	0.10046820	Douglas H. Christensen	0.00493750	James R. Small	0.01312500
				Stanley H. Singer Revocable Trust	0.00890620	Crump Family Partnership Ltd.	0.10467500	Marshall R. Young Oil Company	0.00666667
				Teton Properties, LLC	0.01041686	Dingus Investments, Inc.	0.07241669	George M. Young, Sr.	0.00333333
				Three M Oil Company	0.01562500	EnerQuest Oil & Gas, Ltd.	0.45659531		
						Lone Star Oil & Gas	0.00493750		
						Parsley Resources, Inc.	0.05069162		
						Christopher P. Renaud	0.03517969		
						Armand Smith, Jr.	0.05069169		
12	Sec. 30: E/2 SW/4, S/2 NW/4	160	HBP	Marjorie H. Augustine	0.00979170	Eram Ali	0.01029284		
	<b>SAMUEL CAIN</b>			Jeannine H. Byron	0.00694440	Douglas H. Christensen	0.00514643		
				Roy Lee Wright Cain Trust u/t/a/d 10/6/90	0.02937500	Crump Family Partnership Ltd.	0.10910434		
				Beverly V. Cox	0.00833330	Dingus Investments, Inc.	0.07548096		
				Nancy Iola Henry	0.05875000	EnerQuest Oil & Gas, Ltd.	0.47591338		
				Jerry & Margaret Hooper	0.00694440	Lone Star Oil & Gas	0.00514643		
				Jimmy Joe & Lynne Hooper	0.00694440	Parsley Resources, Inc.	0.05283810		
				William C. Humble	0.00979170	Christopher P. Renaud	0.03666832		
				Lora Mae Rawlings	0.01101560	Armand Smith, Jr.	0.05283810		

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**Exhibit "B"**  
**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
				Jill A. Roberts Revocable Trust	0.00781250				
				Lavita Joy Sullivan	0.01305560				
				Susan Unterberg	0.00781250				

**EXHIBIT "C"**  
**Schedule of Tract Participation East Hobbs (San Andres) Unit**  
**Lea County, New Mexico**

<u>Tract #</u>	<u>Description</u>	<u>Lease Name</u>	<u>Acreage</u>	<u>Tract Participation Factor</u>
1	S/2 SW/4, NW/4 SW/4 Section 29, T-18-S, R-39-E	Carrie O. Davis	120	15.204311
2	S/2 NE/4 Section 30, T-18-S, R-39-E	D.F. Ferguson	80	0.857979
3	NE/4 SW/4 Section 29, T-18-S, R-39-E	Zachary Davis	40	1.473563
4	SW/4 NW/4 Section 29, T-18-S, R-39-E	June Speight	40	0.108696
5	NW/4 SE/4, S/2 SE/4 Section 30, T-18-S, R-39-E	Laney	60	18.322423
6	NW/4 SE/4, S/2 SE/4 Section 30, T-18-S, R-39-E	Laney A	60	19.993114
7	NE/4 SE/4 Section 30, T-18-S, R-39-E	Laney Reese #1	13.33	1.822673
8	NE/4 SE/4 Section 30, T-18-S, R-39-E	Laney Reese #2 & #3	26.67	36.944219
9	N/2 N/2 Section 31, T-18-S, R-39-E	Pearl Goode	160	2.473871
10	N/2 NW/4 Section 32, T-18-S, R-39-E	Ralph Lowe State	80	0.415278
11	W/2 SW/4 Section 30, T-18-S, R-39-E	Rocket Cain	80	0.330804
12	E/2 SW/4, S/2 NW/4 Section 30, T-18-S, R-39-E	Samuel Cain	160	2.053069
		<b>TOTALS</b>	<b>920</b>	<b>100.000000</b>