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December 15, 1998

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

12112

Re: *Application of GP II Energy, Inc. for statutory unitization, Eddy County,
New Mexico.*

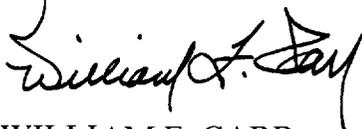
*Application of GP II Energy, Inc. for approval of a waterflood project, Eddy
County, New Mexico.*

98 DEC 15 PM 4:04
OIL CONSERVATION DIV

Dear Ms. Wrotenbery:

Enclosed in triplicate is the application of GP II Energy, Inc. for statutory unitization of the Square Lake Unit and two copies of Oil Conservation Division Form C-108 which is GP II Energy, Inc.'s application for a waterflood project in this unit. Drafts of legal advertisements for each application are also enclosed. GP II Energy, Inc. requests that these applications be placed on the Division Examiner Hearing docket presently set for January 7, 1999.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosures

cc: Mr. M. A. Sirgo (w/enclosures)

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION OF
GP II ENERGY, INC. FOR STATUTORY
UNITIZATION OF THE SQUARE LAKE
UNIT AREA, EDDY COUNTY, NEW MEXICO.**

CASE NO. 12112

APPLICATION

GP II Energy, Inc. ("GP Energy"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, NMSA, 1978 Comp.) hereby applies to the Oil Conservation Division for an order unitizing the Square Lake Unit Area, Eddy County, New Mexico, and in support of its application states:

98 DEC 15 9H 4:04
OIL CONSERVATION DIV.

1. GP Energy is a Texas corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.
2. GP Energy seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed Square Lake Unit Area which consists of 6120 acres, more or less, of State and Federal lands located in Eddy County, New Mexico, and is more particularly described as follows:

TOWNSHIP 16 SOUTH, RANGE 30 EAST, NMPPM

Section 25: E/2

Section 36: N/2

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM

Section 19: S/2

Section 20: S/2

Section 27: SW/4, S/2 NW/4, NW/4 NW/4, S/2 SE/4, NW/4 SE/4,
SW/4 NE/4

Sections 28 through 34: All

A map of the proposed Unit Area is attached to this application as Exhibit A.

3. The vertical limits of the formation to be included within the proposed Unit Area extends from the top of the Grayburg formation to the base of the San Andres formation; the geologic markers having been previously found to occur at 3050 feet and 4206 feet on the type log (which is correlative to the interval from 3050 feet to 4206 feet below the surface measured from the derrick floor which is at an elevation of 3937.5 feet) for the Zephyr ZQ State Well No. 1 located 330 feet from the North line and 2310 feet from the East line of Section 32, Township 16 South, Range 31 East, NMPM, Eddy County, New Mexico.

4. The portions of the reservoirs involved in this application have been defined by development.

5. The type of operations to be conducted in this Unit initially include secondary recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which GP Energy considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. GP Energy further states:

- a. Unitized management, operating and further development of the portion of the Grayburg and San Andres formations, Square Lake Grayburg-San Andres Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.
- b. Unitized methods of operation applied to this portion of the Square Lake Grayburg-San Andres Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would otherwise be recovered.
- c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.
- d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.

- e. GP II Energy, Inc., as operator, has made a good faith effort to secure voluntary unitization within the portion of the Square Lake Grayburg-San Andres Pool affected by this application.
- f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. Statutory unitization of the Square Lake Unit Area, Square Lake-Grayburg-San Andres Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

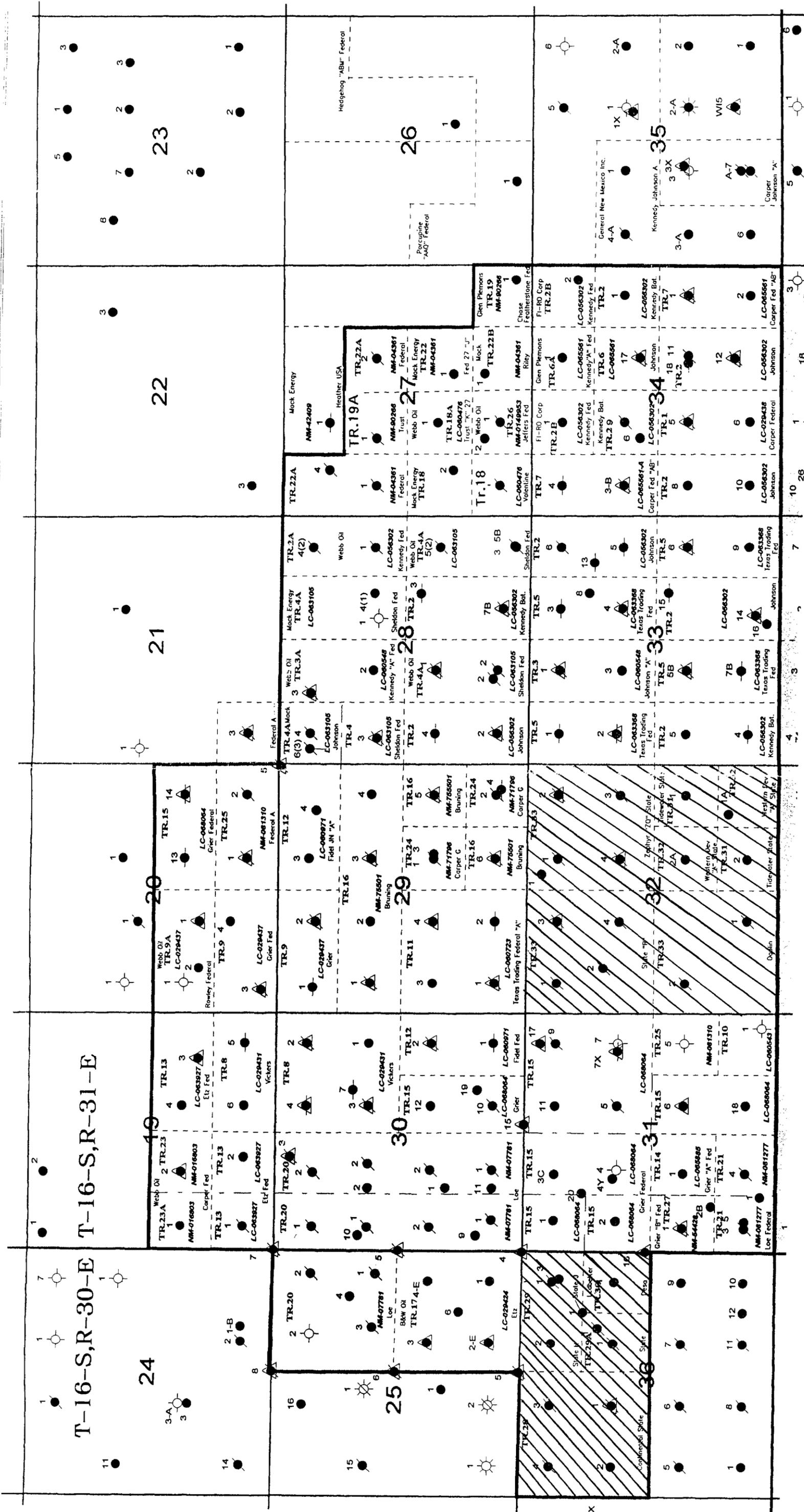
WHEREFORE, GP II Energy, Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on January 7, 1999, and, that after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the Square Lake Unit Area, Eddy County, New Mexico.

Respectfully submitted,

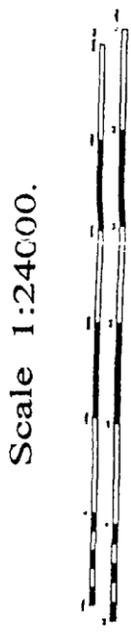
CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

ATTORNEYS FOR GP II ENERGY, INC.



Scale 1:24000.



- LEGEND**
- Active Oil Well
 - Inactive Oil Well
 - ⊙ Abandoned Oil Well
 - ▲ Active Injector Well
 - △ Inactive Injector Well
 - ⊠ Abandoned Injector Well
 - ⊛ PROPOSED 20 ACRE INFILL PRODUCER
 - ⊞ PROPOSED NEW DRILL INJECTOR

FEDERAL LANDS

STATE LANDS

GP II ENERGY, INC.

NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

MANNY SISCO
1/18/98
SCALE 1"=2000'

EXHIBIT A

UNIT AGREEMENT
NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

UNIT AGREEMENT
NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 11th day of December, 1998, 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. Secs. 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 a cooperative or unit plan of development or operation of any oil or 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 Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico 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 (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, New Mexico Statutes 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 State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the 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 interest in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 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 of this 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.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands described in Exhibit "B-1" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 6120 acres, more or less, in Eddy County, New Mexico.

(b) "Land 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 Department of Energy and Minerals of the State of New Mexico.

(d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

(h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from the top of the Grayburg formation to the base of the San Andres formation as seen on the Type Log from the Zephyr ZQ State #1 located at 330' FNL and 2310' FEL, Section 32, T16S, R31E, and is that interval which is correlative to the interval from 3050' to 4206' below the surface measured from the derrick floor. The derrick floor elevation is 3937.5'.

(i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.

(j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B-1".

(k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B-2" for allocating Unitized Substances to a Tract under this Agreement. Percentages of participation are shown on Exhibit "B-2" for Tract Oil and Gas Participation.

(l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract. The Unit Oil and Gas Participation is defined by such calculation.

(m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, 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 and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any Royalty Interest created out of a Working Interest subsequent to the execution of this Agreement by the owner of the Working Interest shall continue to be subject to such Working Interest burdens and obligations.

(n) "Working Interest Owners" is any party hereto owning a Working Interest, including a carried Working Interest Owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of Oil and Gas Rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the Royalty Interest reserved by the lessor or by an oil and gas lease and any overriding Royalty Interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(p) "Royalty Owner" is the owner of a Royalty Interest.

(q) "Unit Operating Agreement" is the Agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, North Square Lake Unit, Eddy County, New Mexico."

(r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

(s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

(t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

(u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.

(v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

(w) "Unit Equipment" is all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(x) "Unit Expense" is all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this Agreement and the Unit Operating Agreement for or on account of Unit Operations.

(y) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of Tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B-1" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of Oil and Gas Interests in all land in the Unit Area. Exhibit "B-2" attached hereto is a schedule showing the Tract Participation of each Tract. However, nothing herein or in said schedules or map 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 said map or schedules as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse Royalty or Working Interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the Exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an Exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an Exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised Exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised Exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. 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 this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owners in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if any number of Working Interest Owners having in the aggregate

seventy-five percent (75%) of the Unit Oil Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(1) After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to Land Commissioner, the A.O. at the Proper BLM Office, each Working Interest Owner and to the last known address of each lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14, and Section 34, *infra*; and (d) a copy of all objections received along with the Unit Operator's response thereto.

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

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2(h) of this Agreement.

SECTION 6. UNIT OPERATOR. GP II ENERGY, INC. is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, 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 references means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, when such interests are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

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

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, the Land Commissioner and the A.O. 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 by the affirmative vote of any number of Working Interest Owners having in the aggregate seventy-five percent (75%) or more of the Unit Participation then in effect exclusive of the Working Interest Owners who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

In all such instances of effective 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 wells, equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the 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 or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. 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 Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of any number of Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of two or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

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 hereto in conformity with their underlying operating agreements, leases or other 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 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. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

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 including surface rights 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, acceptable evidence of title to said rights shall be deposited with said 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 is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells within the Unit Area and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of this Unit Agreement for final approval. Said initial Plan of Operation and all revisions thereof shall be as complete and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating 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 like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the improved recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond, or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unitized Land that result from Unit Operations, and such payments shall be considered as items of Unit Expense to be borne by all the Working Interest Owners of lands subject hereto.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B-2" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B-2" has been determined in accordance with the following formulas:

Oil Phase I Participation: Beginning at 7:00 a.m. on the Effective Date of this Agreement and continuing until termination of the unit, the Tract Oil Participation of each Tract shall be determined by the formula:

$$\text{Tract Oil Participation} = \frac{.05 (A) + .475 (B) + .475 (C)}{D}$$

A = the number of gross acres in any specific Tract.

B = cum oil production from Tract as of Jan. 1, 1998

C = daily production from Jan 1, 1998 thru June, 1998

D = .05 (total unit acres) + .475 (total unit cum oil @ 1-1998) + .475 (total unit production from January 1998 through June 1998)

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B-1" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14(a) above have voted in favor of the inclusion of such Tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14(a) and 14(b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participations which would have been attributed to the nonsubscribing owners of 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, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith schedules of those Tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedules shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such Tract which shall be computed according to the participation formulas set forth in Section 13 (Tract Participation) above. These schedules shall be revised Exhibit "B-1" and "B-2" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until new schedules are approved by the Land Commissioner and A.O.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B-2". All oil, gas, gas liquids, condensate and distillate shall be allocated to the several Tracts based on the Oil and Gas Participation factor when such Unitized Substances are produced. 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 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 Tracts, 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 above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract 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.

SECTION 15.B. WINDFALL PROFIT TAX. In order to comply with the Windfall Profit Tax Act of 1980, as amended, and applicable regulations and to ensure that interest owners of each Tract retain the Windfall Profit Tax benefits accruing to each Tract prior to joining the Unit, for Windfall Profit Tax purposes only, crude oil shall be allocated to individual Tracts as follows:

SECTION 15.C. IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract contributing newly discovered crude oil to the Unit Area, that is, each Tract certified as a newly discovered property for Windfall Profit Tax purposes prior to joining the Unit (Newly Discovered Tract), shall be allocated imputed newly discovered crude oil in the proportion that the Tract Oil and Gas Participation of such Tract bears to the total of the Tract Oil and Gas Participations of all Newly Discovered Tracts; provided, however, that imputed newly discovered crude oil allocated to any Tract under this Subsection 15.C. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Oil and Gas Participation. In the event a Newly Discovered Tract is so allocated a number of barrels of imputed newly discovered crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Oil and Gas Participation, then such Newly Discovered Tract shall be allocated any remaining unallocated newly discovered crude oil in the proportion that the Tract Oil and Gas Participation of such Tract bears to the total of the Tract Oil and Gas Participations of all Newly discovered Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Oil and Gas Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) All Newly Discovered Tracts have been so allocated a number of barrels of imputed newly discovered crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Oil and Gas Participations; or

(b) There is no imputed newly discovered crude oil remaining to be allocated

whichever occurs first.

Any imputed newly discovered crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.C shall be termed excess imputed newly discovered crude oil.

SECTION 15.D. IMPUTED STRIPPER CRUDE OIL. Each Tract contributing stripper crude oil to the Unit Area, that is, each Tract certified as a stripper property for Windfall Profit Tax purposes prior to joining the Unit (Stripper Tract), shall be allocated imputed stripper crude oil in the proportion that the Tract Oil and Gas Participation of such Tract bears to the total of the Tract Oil and Gas Participations of all Stripper Tracts; provided, however, that imputed stripper crude oil allocated to any Tract under this Subsection 15.D. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Oil and Gas Participation. In the event a Stripper Tract is so allocated a number of barrels of imputed stripper crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Oil and Gas Participation, then such Stripper Tract shall be allocated any remaining unallocated imputed stripper crude oil in the proportion that the Tract Oil and Gas Participation of such Tract bears to the total of the Tract Oil and Gas Participations of all Stripper Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Oil and Gas Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) All Stripper Tracts have been so allocated a number of barrels of imputed stripper crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Oil and Gas Participations; or

(b) There is no imputed stripper crude oil remaining to be allocated,

whichever comes first.

Any imputed stripper crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.D. shall be termed excess imputed stripper crude oil.

SECTION 15.E. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Oil and Gas Participation bears to the total of the Tract Oil and Gas Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Oil and Gas Participations of such Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract, when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Oil and Gas Participation.

SECTION 15.F. EXCESS IMPUTED STRIPPER CRUDE OIL. Each Tract shall be allocated any excess imputed stripper crude oil in the proportion that its Tract Oil and Gas Participation bears to the total of the Tract Oil and Gas Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Oil and Gas Participations of such Tracts; provided, however, that excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Oil and Gas Participation.

SECTION 15.G. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit operations. Subject to Section 17 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 taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation, then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, 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, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty, overriding Royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such Royalty, overriding Royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedules as shown in Exhibit "B-1" and "B-2" shall be revised by the Unit Operator; and the revised Exhibits "B-1" and "B-2", upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until revised schedules are approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commissioner and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operation or as otherwise

may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the Unitized Substances produced from any Tract unitized hereunder, shall continue to be entitled to such right 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 not taken in kind shall be made by Working Interest Owners responsible therefor 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 the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the Effective Date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirements to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding Royalty, production or other payments shall be payable on account of Unitized Substances used, lost, or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B-2" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor 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 the 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. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. 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 Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 21. 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 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 interests 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 State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) 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.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

(a) require that the party to whom such Unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgement of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibits "B-1" and "B-2".

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

SECTION 22. 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 and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and 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 Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any 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 or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, 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 within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(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 term of this Agreement.

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) 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 (including both segregated portions) 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 anytime 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 bona fide drilling, reworking, or improved 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.

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "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 nonunitized 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."

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest 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 recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor 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 or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before January 1, 1999, it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of Lea County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the Effective Date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning seventy-five percent (75%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of Lea County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement had never been entered into.

Notwithstanding any other provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six 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 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

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

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department

or the Division 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 proceeding.

SECTION 28. 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 or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other addresses as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. 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 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; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the unitized land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, 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 agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 32. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formation not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same

basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, 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 from and after 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 owning not less than sixty-five (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this 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 proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. 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 land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

SECTION 34. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

SECTION 35. 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 therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. 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 obligation as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases 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 in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-production shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest Owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

(1) Section 14 of this Agreement shall be revised by substituting for the entire said Section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said Section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Eddy County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five (65%) as to all Tracts within the Unit Area.

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Eddy County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

(3) This Agreement an/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreements without the necessity of further approval in writing by said Working Interest Owner.

IN WITNESS WHEREOF, the undersigned have executed this agreement on the dates evidenced by their respective certificates of acknowledgement hereof.

UNIT OPERATOR AND WORKING INTEREST OWNER
GP II ENERGY, INC.

By: _____
President

Address: P. O. Box 50682
Midland, Texas 79710

STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on _____, 1998, by George P. Mitchell, II, President of GP II Energy, Inc., a Texas Corporation, on behalf of said corporation.

Notary Public in and for
said County and State

EXHIBIT "B-2"

	ACRES	% of Unit
FEDERAL LANDS :	6200	85.42%
STATE LANDS :	920	14.58%
TOTAL UNIT LANDS :	6120	100.00%

Attached to that certain Unit Agreement dated the ____ day of DECEMBER, 1998, for the North Square Lake Unit, located in Eddy County, New Mexico

page 1of2

TRACT NO	LEASE NAME	WORKING INTEREST OWNER NAME	OWNER W.I. %	TRACT OIL CUM@1-98	TRACT ACRES	TRACT	TRACT	OWNER
						TOT PROD 1 THRU 6-98	UNIT FACTOR	UNIT (%)
1	CARPER	SQUARE LAKE PARTNERS	100	192227	80	230	0.0122837	1 22837163 0
2	JOHNSON	SQUARE LAKE PARTNERS	100	1423749	560	3548	0.1251864	12 5186392
2A	KENNEDY	CHASE OIL CORP	100	25238	80	0	0.0016182	0.16161866
2B	KENNEDY	DONALD B. ANDERSON	50	91294	80	228	0.0083967	0.41963479
		DAVID C. COLLIER	12.5				0.0083967	0.1049587
		BERT M. JONES	12.5				0.0083967	0.1049587
		J.T. HAILE JR	12.5				0.0083967	0.1049587
		ROBERT GLEASON	12.5				0.0083967	0.1049587
3	JOHNSON A	SQUARE LAKE PARTNERS	100	150166	80	41	0.0071473	0.71472618
3A	KENNEDY A	CHASE OIL CORP.	100	49159	80	241	0.0070326	0.70325998
4	SHELDON	SQUARE LAKE PARTNERS	100	15982	40	0	0.0009364	0.093636
4A	JOHNSON	CHASE OIL CORP.	100	340030	280	210	0.0191612	1.91812142
5	TEXAS TRD	SQUARE LAKE PARTNERS	100	676641	320	560	0.0388877	3.88877035
6	JOHNSON	SQUARE LAKE PARTNERS	100	5003	40	0	0.0005178	0.05176147
6A	KENNEDY A	DONALD B. ANDERSON	50	21234	40	3	0.0011927	0.05963707
		DAVID C. COLLIER	12.5				0.0011927	0.01490927
		BERT M. JONES	12.5				0.0011927	0.01490927
		J.T. HAILE JR	12.5				0.0011927	0.01490927
		ROBERT GLEASON	12.5				0.0011927	0.01490927
7	CARPER AB	SQUARE LAKE PARTNERS	100	145509	180	92	0.0085573	0.85573054
8	VICKERS	SQUARE LAKE PARTNERS	100	834973	240	1227	0.0567388	5.67365549
9	GRIER	SQUARE LAKE PARTNERS	100	641203	180	3219	0.065923	6.59229786
9A	ROWLEY	CHASE OIL CORP BHW LLC	83.33	106600	60	264	0.0096533	0.80440781
			16.67				0.0096533	0.16092018
10	GRIER	SQUARE LAKE PARTNERS	100	0	40	0	0.0003266	0.03267974
11	TEXAS T-A	SQUARE LAKE PARTNERS	100	374346	160	423	0.0234904	2.34904141
12	FIDEL A	SQUARE LAKE PARTNERS	100	558870	180	1082	0.0428443	4.28443261
13	ETZ	SQUARE LAKE PARTNERS	100	224892	180	163	0.012931	1.29310089
14	GRIER A	SQUARE LAKE PARTNERS	100	113326	40	756	0.018778	1.87780113
15	GRIER B3	SQUARE LAKE PARTNERS	100	1573547	560	4153	0.1422066	14.2206628
16	BRUNING	SQUARE LAKE PARTNERS	100	768774	240	607	0.0428285	4.28264979
17	AN ETZ	CHASE OIL CORP	100	515780	180	713	0.0343046	3.43046023
18	VALENTINE	MARBOB ENERGY CORP.	100	115983	80	166	0.0081796	0.81796294
18A	TRST K-27	BULLDOG ENERGY CORP	100	48342	40	100	0.0039632	0.39632093
19	CHASE-FTR	DAVID C. COLLIER	25	8462	40	69	0.0019391	0.04847712
		BERT M. JONES	25				0.0019391	0.04847712
		J.T. HAILE JR.	25				0.0019391	0.04847712
		ROBERT GLEASON	25				0.0019391	0.04847712
19A	TRUST	KENNEDY OIL COMP.	100	4719	40	0	0.0005068	0.05067828

EXHIBIT "B-2"

	ACRES	% of Unit
FEDERAL LANDS :	8208	85.42%
STATE LANDS :	920	14.58%
TOTAL UNIT LANDS :	9128	100.00%

Attached to that certain Unit Agreement dated the ____ day of DECEMBER, 1998, for the North Square Lake Unit, located In Eddy County, New Mexico

TRACT NO	LEASE NAME	WORKING INTEREST OWNER NAME	OWNER W.I. %	TRACT OIL CUM@1-98	TRACT ACRES	TRACT	TRACT	OWNER						
						TOT PROD 1 THRU 8-98	UNIT FACTOR	UNIT (%)						
20	LOE	SQUARE LAKE PARTNERS	33.33	902803	480	1874	0.0733706	2.44544139						
		KM JONES OIL CO.	33.33					0.0733706	2.44544139					
		STAPLES OIL COMP.	33.33					0.0733706	2.44544139					
21	HJ LOE	SQUARE LAKE PARTNERS	100	118548	80	464	0.0138468	1.38467864						
22	FED 27 J	MARBOB ENERGY CORP	100	4458	40	0	0.0004966	0.04968281						
22A	FED	CHASE OIL CORP.	100	43110	120	0	0.0026246	0.26246323						
22B	RILEY	DONALD B. ANDERSON	50	26905	40	91	0.0030537	0.15268349						
		BULLDOG ENERGY	50					0.0030537	0.15268349					
22	CARPER	CHASE OIL CORP.	100	7760	40	0	0.0006228	0.06227682						
23A	CARPER	CHASE OIL CORP.	100	63245	40	82	0.0042715	0.42714972						
24	CARPER G	SQUARE LAKE PARTNERS	100	394531	80	540	0.0257633	2.57933015						
25	BAKTER A	UNLEASED	100	96177	120	0	0.0046486	0.46486381						
26	JEFFERS	BULLDOG ENERGY	100	58504	40	24	0.0030087	0.30087099						
27	GRIER B	SQUARE LAKE PARTNERS	100	26628	40	309	0.0071173	0.71173102						
28*	CONTNTL	SQUARE LAKE PARTNERS	100	268364	160	318	0.0174859	1.74858532						
29*	STATE H	SQUARE LAKE PARTNERS	100	281380	80	280	0.0166185	1.66185136						
29A*	WITCH	HERMAN LEDBETTER	100	132665	40	0	0.0053867	0.53867186						
30*	STATE J-S	SQUARE LAKE PARTNERS	87.5	246746	40	144	0.0125053	1.08421644						
		MAX W. COLL	3.125					0.0125053	0.03907916					
		JON F. COLL	3.125					0.0125053	0.03907916					
		JAMES N. COLL	3.125					0.0125053	0.03907916					
		CHARLES H. COLL	3.125					0.0125053	0.03907916					
31*	TIDEWTR	SQUARE LAKE PARTNERS	75.85	209426	90	1525	0.037142	2.81722422						
		BORLAND INC	0.24					0.037142	0.00891409					
		C Y PRODUCTION LLC	0.81					0.037142	0.02265665					
		GBN INC	0.24					0.037142	0.00891409					
		R.MACE HOLMAN JR	0.81					0.037142	0.02265665					
		JL SMITH CO.	0.8					0.037142	0.02971364					
		LATHROP DIAMOND BIT	1.88					0.037142	0.06982705					
		RACHEL LYMAN	0.94					0.037142	0.03491352					
		CV TEST TRUST	0.94					0.037142	0.03491352					
		PRIDE ENERGY	12.5					0.037142	0.46427558					
		RBP LAND COMP	1.88					0.037142	0.06982705					
		SE COM & EQUIP	1.83					0.037142	0.06054154					
		W WATSON INC	1.84					0.037142	0.06982705					
		32*	WEST DEV					SQUARE LAKE PARTNERS	96.25	142111	80	604	0.017362	1.67108815
								LATHROP DIAMOND BIT	3.75					0.017362
32*	ZEPHYR	SQUARE LAKE PARTNERS	100	405217	480	1066	0.0392993	3.92992674						

* DENOTES STATE LANDS

TOTAL UNIT	12453929	6120	26416	1	100.00%
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(TRACTS 1 THRU 27)	FEDERAL LANDS	10766018	5160	21479	0.8542003	85.42%
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(TRACTS 28 THRU 33)	*STATE LANDS	1687911	860	3937	0.1457997	14.58%
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UNIT OPERATING AGREEMENT
NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

UNIT OPERATING AGREEMENT
NORTH SQUARE LAKE UNIT
EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

NORTH SQUARE LAKE UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 11th day of December, 1998, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "Unit Agreement, North Square Lake Unit, Eddy County, New Mexico," herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined;

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

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

1.1 Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2
EXHIBITS

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

2.1.1 Exhibits A, B-1 and B-2 of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is a schedule showing the Unit Oil and Gas Participation of each Working Interest Owner. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Oil and Gas Participation of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

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

2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit F, attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.

2.1.6 Exhibit G, attached hereto, is the form of indemnity agreement provided for in Article 9 of the Unit Agreement.

2.1.7 Exhibit H, attached hereto, is the non-discrimination agreement provided for in Section 21.2.

2.1.8 Exhibit I, attached hereto, is a list of wells to be delivered to Unit Operator on the Effective Date for use in Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits A, B-1 and B-2 are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. Working Interest Owners shall be provided a duplicate copy of any exhibit revised as provided herein.

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached, or, if revised, to the last revision.

ARTICLE 3
SUPERVISION OF OPERATIONS BY
WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authority and Duties. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including the type or types of secondary or tertiary recovery, or other enhanced recovery programs to be employed.

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

3.2.3 Well Abandonment, Use, and Conversion. The abandonment of any well; the use of any well for injection, salt water disposal, or for any purpose other than production; or the conversion of the use of any well from one purpose to another. The reactivation of a well which was shut-in or temporarily abandoned to its former use by Unit Operator shall not require prior approval of Working Interest Owners if the estimated expenditure is less than the expenditure limitation specified in Section 3.2.4.

3.2.4 Expenditures. The making of any single expenditure in excess of thirty thousand dollars (\$30,000.00); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is ten thousand dollars (\$10,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, Unit Operator shall act as such representative in the absence of the designation of a different representative by Working Interest Owners. Such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audit shall

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

(b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or

(c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and

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

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

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

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

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

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

3.2.15 The approval of Cooperative Agreements as provided in Section 7.11 hereof.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one (1) or more Working Interest Owner having a total Unit Oil and Gas Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

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

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

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of any number of Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5 INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

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

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

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to Working Interest Owners shall be charged to the Working Interest Owner that requests such information.

5.2.3 CO₂. The right to supply in-kind its proportionate share of any CO₂ or other injectants used in tertiary recovery or enhanced recovery operations.

ARTICLE 6 UNIT OPERATOR

6.1 Unit Operator. GP II Energy, Inc. is hereby designated Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time by giving written notice thereof to Working Interest Owners. Unit Operator may be removed at any time by the affirmative vote of any number of Working Interest Owners having seventy-five percent (75%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of ninety (90) days after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having over fifty percent (50%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7
AUTHORITY AND DUTIES OF UNIT OPERATOR

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

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

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

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

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

7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations. Such reports shall be furnished as frequently as may be determined by Working Interest Owners.

7.7 Gas Vintage. Upon unitization, all Working Interest Owners shall provide the Unit Operator with the gas vintage for each well contributed to the Unit. The Unit Operator shall provide quarterly gas vintage splits to each Working Interest Owner's gas purchaser(s).

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

7.9 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.10 Expenditures. Unit Operator is authorized to make single expenditures not in excess of thirty thousand dollars (\$30,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

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

7.12 Cooperative Agreements. Unit Operator may, after approval by Working Interest Owners, enter into cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

7.13 Tertiary Recovery Operations. Unit Operator shall conduct tertiary recovery or enhanced recovery operations only with the affirmative vote of Working Interest Owners having seventy-five percent (75%) or more voting interest.

ARTICLE 8 TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. If the ad valorem taxes are based in whole or in part upon separate valuation of the Working Interest of each Working Interest Owner, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Working Interest Owners in accordance with the tax value generated by the Working Interest of each Working Interest Owner. If Unit Operator considers any tax assessment improper, Unit Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute to a final determination, unless Working Interest Owners agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest or penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax for the joint account, together with any interest and penalty accrued.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, windfall profits, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances, except that on gas production only the taking parties shall pay such taxes.

ARTICLE 9 INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall provide insurance as set forth in Exhibit E.

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells. All wells listed on Exhibit I, together with the casing therein.

10.1.2 Well and Lease Equipment. The tubing in each such well, the wellhead connections thereon, and all other well, lease and operating equipment that is used in the operation of such wells, which Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall make such determination as soon as practicable after the Effective Date hereof, and all such property that is determined to be surplus shall be returned as promptly as possible to the Working Interest Owners who delivered same to Unit Operator.

10.1.3 Condition of Wells. If any well has any zone(s) open below the Unitized Interval, Working Interest Owner(s) of such well must set a cast iron bridge plug (CIBP) in production casing at 120 feet below the base of the Lovington Sand, and place approximately 35 feet of cement on top of the CIBP. All wells, including the casing therein, shall be delivered to Unit Operator in reasonably good physical condition capable of being used for Unit Operations. If within one hundred and twenty (120) days after the Effective Date it is determined by the Working Interest Owners that at least one of the wells on Exhibit I within each forty (40) acres; i.e., within each proration unit, has not been delivered to Unit Operator (a) in reasonably good physical condition capable of being used for Unit Operations on the Effective Date, and (b) free of any casing failure or leak, whether any such casing failure or leak is determined by Unit Operator to have developed before or after the Effective Date, and (c) with any zone(s) below the Unitized Interval that have not been placed in condition as set out above in this Section 10.1.3, then the Working Interest Owner(s) who contributed such forty (40) acres shall be liable to the other Working Interest Owners for liquidated damages as measured by the cost of repairing one well on the forty (40) acres, or by the cost of drilling, completing, and equipping a replacement well on the forty (40) acres, not to exceed two hundred thousand dollars (\$200,000.00), provided that any amount in excess of two hundred thousand dollars (\$200,000.00) shall be treated as any other item of Unit Expense and charged to the joint account.

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, at Unit Expense, inventory and evaluate the personal property taken over by Unit Operator under Section 10.1.2. The inventory shall include and be limited to those items of equipment considered controllable as recommended in the most recent edition of the "Materials Classification Manual" prepared by the Council of Petroleum Accountants Societies; however, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. All noncontrollable items of well, lease and operating equipment used in the operation of the wells taken over under Section 10.1.1. which Working Interest Owners determine is necessary or desirable for conducting Unit Operations, although excluded from the inventory, shall nevertheless be taken over by Unit Operator. Casing taken over under Section 10.1.1 shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment. Immediately following completion of such inventory, the material and equipment included in the inventory, with the exception of casing, shall be priced in accordance with the provisions of Exhibit "D". The pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing information as may be available and necessary.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined under Section 10.2, of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value, as determined under Section 10.2, of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Oil and Gas Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit operator, subject to the approval of Working Interest Owners. There shall be no adjustments for lease roads or appurtenances thereto.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Oil and Gas Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of Unit Expense is to be allocated based on their Unit Oil and Gas Participation in effect at the time such Unit Expense is incurred. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

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

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to each Working Interest Owner, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, together with an invoice for its share thereof. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by the Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

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

11.5 Lien and Security Interest. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the Prime rate set by Chase Manhattan Bank of New York for the same period plus one percent (1%) per annum or the maximum contract rate permitted by applicable usury laws, whichever is the lesser. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants to Working Interest Owners other than Unit Operator an identical lien and security interest, together with the same remedies as provided to Unit Operator above, to secure payment of Unit Operator's share of expense.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are

allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Oil and Gas Participation at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. If such difference exceeds an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the tract, the excess shall be borne solely by the Working Interest Owners of such Tract proportionately in accordance with their Tract Participation as shown on Exhibit B-2. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12 NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquired the right to drill for and produce oil, gas or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care of cause care to be exercised to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it.

ARTICLE 13 TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibits B-1, B-2 and C, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Oil and Gas Participation of the Working Interest Owner whose title failed in relation to the Unit Oil and Gas Participation of the other Working Interest Owners at the time of the title failure.

ARTICLE 14 LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Where insurance or self-insurance is not maintained as set forth in Exhibit E for the joint interest, the Unit Operator shall investigate, defend, settle or otherwise handle any injury or damage claim or suit if the settlement expenditure does not exceed thirty thousand dollars (\$30,000.00) and if the payment is in complete settlement of the claim or suit. A settlement expenditure in excess of the above amount may be made only by approval of Working Interest Owners and each Working Interest Owner shall have the right to participate through its own counsel at its own expense in the settlement, compromise or defense of any such claim or suit. Any expenditure incurred by Unit Operator in defending, compromising, settling or prosecuting any claims or suits, regardless of the settlement amount, shall be charged to the joint account, including charges for litigation services of Unit Operator's legal staff or fees or expenses of outside attorneys; however, no charge for services of Unit Operator's legal staff or fees or expenses of outside attorneys shall be made without prior approval of Working Interest Owners. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued in connection with any matter arising from Unit Operations over which such Working Interest Owner has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15
INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State of New Mexico, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16
NOTICES

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

ARTICLE 17
WITHDRAWAL OF WORKING INTEREST OWNER

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

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless one or more of the other Working Interest Owners are willing to accept assignment of the Working Interest subject to such burdens. Such Working Interest Owners willing to accept assignment, if any, will own the transferred interest in proportion to their respective Unit Oil and Gas Participation. Upon the effective date of transfer, if any, the Unit Participation of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest.

ARTICLE 18
ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract

on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the account of all Working Interest Owners, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment in and on the well up to and including the wellhead equipment, except casing therein if contributed by such Working Interest Owners under Section 10.1.1, less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 19 EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective.

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 20 ABANDONMENT OF OPERATIONS

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

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment up to and including the wellhead equipment in and on the wells taken over, except casing therein if contributed by such Working Interest Owners under Section 10.1.1., less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Oil and Gas Unit Participation.

ARTICLE 21
LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

21.1 Laws and Regulations. This Agreement and operations hereunder are subject to all valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state and local laws, ordinances, rules, regulations and orders; and any provision of this agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

21.2 Certificate of Compliance. In the performance of work under this agreement, the parties agree to comply with, and Unit Operator shall require each independent contractor to comply with, the Federal contract provisions of Exhibit H.

ARTICLE 22
EXECUTION

22.2 Original, Counterpart, or Other Instrument. As owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

ARTICLE 23
SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

ARTICLE 24
GAS BALANCING

24.1 Gas Balancing. In the event one (1) or more Working Interest Owners' separate disposition of its share of gas causes deliveries to separate pipelines or deliveries which on a day-to-day basis for any reason are not exactly equal to a Working Interest Owner's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the Working Interest Owners shall be in accordance with Exhibit F, which shall prevail in the event of a conflict between the Unit Operating Agreement and Exhibit F.

IN WITNESS WHEREOF, the undersigned have executed this agreement on the dated evidenced by their respective certificates of acknowledgment hereof.

GP II ENERGY, INC.

By: _____
President

Address: P. O. Box 50682
Midland, Texas 79710

STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on 1998, by George P. Mitchell, II, President of GP II Energy, Inc., a Texas Corporation, on behalf of said corporation.

Notary Public in and for
said County and State

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EXHIBIT " C "

	ACRES	% of Unit
FEDERAL LANDS :	5200	85.42%
STATE LANDS :	920	14.58%
TOTAL UNIT LANDS :	6120	100.00%

Attached to that certain Unit Agreement dated the ___ day of DECEMBER, 1998, for the North Square Lake Unit, located in Eddy County , New Mexico

WORKING INTEREST OWNER NAME

UNIT WORKING INTERESTS, %

SQUARE LAKE PARTNERS, LLC	81.9829642
CHASE OIL CORP.	7.76976767
DONALD B. ANDERSON	0.83216536
DAVID C. COLLIER	0.16834509
BERT M. JONES	0.16834509
J.T. HAILE JR.	0.16834509
ROBERT GLEASON	0.16834509
BHW,LLC	0.16082018
MARBOB ENERGY CORP.	0.86764575
BULLDOG ENERGY CORP.	0.84967641
KENNEDY OIL CO.	0.05067828
KM JONES OIL CO.	2.44544139
STAPLES OIL CO.	2.44544138
UNLEASED	0.46486381
HERMAN LEDBETTER	0.53887166
MAX COLL	0.03907916
JON COLL	0.03907916
JAMES COLL	0.03907916
CHARLES COLL	0.03907916
BORLAND, INC.	0.00891409
CY PRODUCTIONS LLC	0.02265665
GBN INC.	0.00891409
R. MACE HOLMAN JR.	0.02265665
JL SMITH CO.	0.02971364
LATHROP DIAMOND BIT	0.13493439
RACHAL LYMAN	0.03491362
CV LYMAN TEST TRUST	0.03491362
PRIDE ENERGY	0.46427658
RBP LAND CO.	0.06982706
SE COM & EQUIP	0.06064164
W. WATSON INC.	0.06982706
UNIT TOTAL	100.00%

EXHIBIT " D "

Attached to and made a part of NORTH SQUARE LAKE UNITACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and 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 CPAS MANHATTAN on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof provided, however, all bills and 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 within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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5. Audits

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

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of these employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

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

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

7. Services

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

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expenses, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed ten percent (10%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements 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 8.

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 herein in accordance with the tax value generated by each party's working interest.

12. Insurance

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

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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:

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:

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
 shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5000.00
 (Prorated for less than a full month)

Producing Well Rate \$ 300.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing such completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

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~~(a) Development~~

~~Percent () of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section 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 original 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 as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 50,000.00.

- A. _____ % of first \$100,000 or total cost if less, plus To be negotiated
- B. _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. _____ % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

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

- A. _____ % of total costs through \$100,000; plus To be negotiated
- B. _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ % 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 Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to others. 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:

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A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock price 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 ¼ 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 ¼ 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 ¼ 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

At 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 which 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 as 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.

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(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 tubular goods movements, in lieu of actual loading or unloading costs sustained at the spotting 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(2). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to 10 days for 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 "E"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT, NORTH SQUARE UNIT, EDDY COUNTY, NEW MEXICO DATED DECEMBER 11, 1998

INSURANCE AND CLAIMS

1. UNIT OPERATOR shall, at all times while conducting operations hereunder, comply with all applicable Workers' Compensation and Occupational Disease Laws including the United States Longshoremen's and Harbor Workers' Compensation Act and carry all Employer's liability and other insurance required by the laws of New Mexico, provided, however, that UNIT OPERATOR may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained.

2. No other insurance shall be carried by UNIT OPERATOR for the joint account unless agreed to by the Working Interest Owners in accordance with the voting procedure set forth in Article 4 of the Unit Operating Agreement.

3. Each Working Interest Owner may procure such insurances with respect to the co-owned properties and operations as it deems necessary to protect itself against claims and damages, and all insurance policies shall provide that underwriters and insurance carriers of such Working Interest Owner shall waive any right of subrogation against UNIT OPERATOR and other Working Interest Owners.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT, NORTH SQUARE LAKE UNIT, EDDY COUNTY, NEW MEXICO DATED DECEMBER 11, 1998

GAS BALANCING AGREEMENT

1. The parties to the Unit Operating Agreement to which this Gas Balancing Agreement is attached own the Working Interest in the gas rights underlying the Unit Area and are entitled to share in the oil and gas production from the Unit in accordance with the provisions of the Unit Operating Agreement.

2. For the purposes of this agreement, "gas" shall include all gas well gas and oil well gas. "Gas well gas" is defined as gas produced from completion intervals which are classified in the most recent applicable New Mexico Oil Conservation Division proration schedule as gas wells. "Oil well gas" is defined as gas produced from completion intervals which are classified in the most recent applicable New Mexico Oil Conservation Division proration schedule as oil wells.

3. In accordance with the provisions of the Unit Operating Agreement, each party shall have the right to take its gas in kind and separately dispose of its share of gas produced from the Unit Area. Each party shall make a good faith effort to take and market its share of gas as currently produced. If, at any time while the Unit Operating Agreement is in effect, any party fails to take its share of gas, or has contracted to sell its share of gas produced from the Unit Area to a purchaser who fails to take such share of gas attributable to the interest of that party, the terms of this Gas Balancing Agreement shall apply automatically. It is the intent of this Gas Balancing Agreement that it never be used as a device to delay marketing of gas or as a means of withholding gas from the market.

4. During the period or periods when any party hereto or its purchaser fails to take all or part of such party's share of gas, the other parties hereto shall have the right but not the obligation to produce, each month, all or a part of the total allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction; provided, however, no party may without the express written approval of the underproduced party, take or market gas in quantities in excess of 150 percent of such party's share of the gas allowable or, in the absence of such allowable gas production, 150 percent of such party's share of the then current deliverability. The Operator shall have the duty of controlling production from the Unit Area and the responsibility of administering the provisions of this Agreement. The Operator shall use its best efforts to cause

EXHIBIT "F"

deliveries to be made to the gas purchasers from the Unit Area at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein. In so doing, the Operator shall not incur any liability to any nonoperator.

5. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment, prior to processing in a gas plant, in accordance with the terms of the Unit Agreement and Unit Operating Agreement; provided, however, that each party taking such gas shall own all of the gas delivered to its purchaser.

6. Unit Operator shall keep records to maintain the over and under production accounts among the parties separately for gas well gas and for oil well gas. The over and under account quantities for gas well gas production shall be expressed in volumetric terms of MCF, whereas the over and under account quantities for oil well gas production shall be expressed in energy content terms of MMBTU.

7. The word "gas" as used in this Paragraph 7 shall apply separately to "gas well gas" and "oil well gas." Each party unable to take or market its full share of the gas as produced shall be credited with gas in the reservoir(s) underlying the Unit Area equal to its share of the gas produced under the Unit Operating Agreement, less such party's share of the gas actually taken and delivered to a purchaser, and less such party's share of gas used in joint operations, vented or lost. Unit Operator will maintain a running account of the quantities of gas each party is entitled to receive and the quantities of gas taken and marketed by each of the parties. Unit Operator will also furnish each party monthly statements showing the total quantity of gas produced, the amount thereof used in joint operations, vented or lost, the quantity of gas delivered to pipeline purchaser(s) for the account of each party, and monthly and cumulative over and under quantities. Unit Operator shall use these records to maintain the over and under production accounts among the parties.

8. The word "gas" as used in this Paragraph 8 shall apply separately to "gas well gas" and "oil well gas." After notice to Unit Operator, any party may begin taking or delivering to its purchaser its full share of the gas produced from the Unit Area, less any gas used in joint operations, vented or lost. To allow the underproduced party or parties to recover gas credited to such party or parties in the reservoir(s) and to balance the gas accounts among the parties in accordance with their respective interests, the underproduced party shall be entitled to take as makeup gas, an additional quantity equal to fifty percent (50%) of

EXHIBIT "F"

deliverable gas attributable to the overproduced parties, beginning on the first day of the month following such notice. If there is more than one underproduced or overproduced party, each underproduced and overproduced party's share of makeup gas shall be in direct proportion to its unit participation. Recovery of gas shall be in the order of its accrual in storage.

9. The word "gas" as used in this Paragraph 9 shall apply separately to "gas well gas" and to "oil well gas." In the event production of gas from the Unit Area is permanently discontinued before the gas accounts are balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party or parties received at the time of overproduction, less applicable taxes theretofore paid. If the overproduced party or parties did not sell its gas, such gas will be valued in the same manner used for royalty and severance tax purposes when produced. That portion of the monies collected by the overproduced party or parties which is subject to refund by order of the FERC may be withheld by the overproduced party or parties until such prices are fully approved by the FERC, unless the underproduced party or parties furnish a corporate undertaking agreeing to hold the overproduced party or parties harmless from financial loss due to refund order by the FERC.

In order to administer this provision, Operator shall request each overproduced party to furnish Operator a monthly statement of revenue and volume for each month during which the overproduction occurred. Within a reasonable time after the permanent termination of production of gas from the Unit Area, Operator shall invoice each overproduced party for its proportionate share of said overproduction based on said statements and shall distribute the amounts collected from the overproduced parties to each underproduced party proportionate to the relative volumes of underproduction attributable to each such underproduced party based on weighted average price received by each overproduced party during the period that the underproduction occurred. Each party shall retain all producer's records of volumes taken or sold and revenues or values accruing thereto for the full term of this Gas Balancing Agreement. Operator agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

10. This Gas Balancing Agreement shall remain in force and effect as long as the Unit Operating Agreement is in effect and thereafter until the gas balance accounts amount the parties are settled in full, and it shall inure to the benefit of and be binding upon, the parties hereto, their respective successors, representatives, and assigns.

EXHIBIT "F"

11. Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, including royalty and overriding royalty, as if each party were taking or delivering to a purchaser its share and its share only of gas production. Each party hereto shall hold each other party hereto harmless from any and all claims for royalty payments asserted by Royalty Owners to whom each party is accountable. Each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

12. Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party arising out of the operation of this Agreement or activities of any party under its provisions and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

EXHIBIT "G"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT, NORTH SQUARE LAKE UNIT, EDDY COUNTY, NEW MEXICO DATED DECEMBER 11, 1998

INDEMNITY AGREEMENT

WHEREAS, Section 9.1.3 of the agreement entitled "Unit Agreement North Square Lake Unit, Eddy County, New Mexico", dated July 1, 1998, provided that under certain circumstances and conditions therein stated a Tract that fails to qualify for inclusion in the Unit Area of the Unit may be included if the requisite Working Interest Owners in the Tract as specified in said Section request the inclusion of the Tract in the Unit Area and execute and deliver, or obligate themselves to execute and deliver, an indemnity agreement; and

WHEREAS, Tract _____, described in the Unit Agreement is such a Tract; and

WHEREAS, the undersigned are owners of Working Interest in such Tract who have become parties to the Unit Agreement and the Unit Operating Agreement and desire the inclusion of the Tract in the Unit Area of the Unit.

NOW, THEREFORE, in consideration of and conditioned upon said Tract's meeting the other requirements of the aforesaid Section of the Unit Agreement and its inclusion in the Unit Area of the Unit, the undersigned hereby request the inclusion of the above Tract in the Unit Area and agree, together with other owners of working interest in the Tract, who execute and deliver, or who obligate themselves to execute and deliver, like indemnity agreements, to indemnify and hold harmless all other Working Interest Owners in the Unit Area, against all claims and demands required by said Section to be the subject of such indemnity. Any liability arising hereunder shall be borne by the undersigned and other Working Interest Owners in the Tract who are committed to like indemnity agreements, in the proportion that the Working Interest of each in the Tract bears to the total Working Interest therein of all the owners of Working Interest in the Tract committed to such indemnity agreements.

This indemnity shall become void with respect to all claims and demands based upon occurrences subsequent to the time when one hundred percent (100%) of the Working Interest in the Tract becomes committed to the Unit Agreement.

This agreement shall be binding upon and shall inure to the benefit of the heirs, devisees, legal representatives, successors, and assigns of the respective parties initially bound or benefitted by the provisions hereof.

EXHIBIT "G"

IN WITNESS WHEREOF, each of the undersigned has executed this instrument on the day and date evidenced by his certificate of acknowledgement hereof.

CORPORATE ACKNOWLEDGEMENT

STATE OF)
)
COUNTY OF)

This instrument was acknowledged before me on _____, 1998, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

Notary Public in and for
Said County and State

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF)
)
COUNTY OF)

This instrument was acknowledged before me on _____, by _____.

Notary Public in and for
Said County and State

EXHIBIT "H"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT, NORTH SQUARE LAKE UNIT, EDDY COUNTY, NEW MEXICO DATED DECEMBER 11, 1998

NON-DISCRIMINATION

A. During the performance of this Agreement, Operator hereby agrees as follows:

(1) Operator will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. Operator will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color 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. Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in the form specified in the Regulations published in Title 41, Chapter 60 of the Code of Federal Regulations, as amended, setting forth the provisions of this non-discrimination clause.

(2) Operator will, in all solicitations or advertisements for employees place by or on behalf of Operator, state that all qualified applicants will receive consideration for employment without regard to race, creed, color or national origin.

(3) Operator will send to each labor union or representative of works with which Operator has a collective bargaining agreement or other contract or understanding, a notice in the form prescribed by the Regulations published in Title 41, Chapter 60 of the Code of Federal Regulations advising the labor union or workers' representative of Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of notices in conspicuous places available to employees and applicants for employment.

(4) Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules and regulations and relevant orders of the Secretary of Labor.

EXHIBIT "H"

(5) Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and order of the Secretary of Labor or pursuant thereto, and will permit access to its books, records and accounting by the contracting agency (as defined in the Regulations published under Title 41, Chapter 60 of the Code of Federal Regulations) and by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

(6) In the event of Operator's noncompliance with the non-discrimination clause of this Agreement or with any of such rules, regulations or orders Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rules, regulations or order of the Secretary of Labor or as otherwise provided for by law.

(7) Operator will include the provisions of these Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. Operator will act with respect to any subcontractor or vendor as the contract agency may direct as a means of enforcing such provisions including sanction for noncompliance; provided, however, that in the event Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, Operator may request the United States to enter into such litigation to protect the interests of the United States.

B. Certification of non-segregated facilities:

(1) Operator and each Non-Operator assures the other that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. For this purpose it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

EXHIBIT "H"

(2) Operator and each Non-Operator understands and agrees that the breach of the assurance herein contained subjects the breaching party to the provisions of the order at 41 CFR Chapter 60 of the Secretary of Labor, dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and the assured.

(3) Operator and each Non-Operator agrees that whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 USC Par. 1001.

(4) Operator and each Non-Operator, respectively, reserves to itself the benefit of all exemptions, qualifications and limitations contained in and which it may claim under 41 CFR Chapter 60 and this certification is qualified to the extent and so that Operator and each Non-Operator, respectively, shall have the full benefit thereof.

EXHIBIT "I"

ATTACHED TO THAT CERTAIN UNIT OPERATING AGREEMENT DATED THE 11TH DAY OF DECEMBER, 1998, FOR THE NORTH SQUARE LAKE UNIT, LOCATED IN EDDY COUNTY, NEW MEXICO OPERATED BY GP II ENERGY, INC.

UNIT WELLS

TRACT	LEASE	WELL NO.	LOCATION
20	LOE	1	H 1980' FNL 660' FEL 25-16S-30E
20		2	A 660' FNL 660' FEL 25-16S-30E
20		2	B 660' FNL 1980' FEL 25-16S-30E
20		3	G 1980' FNL 1980' FEL 25-16S-30E
20		4	H 1650' FNL 990' FEL 25-16S-30E
20		6	F 2630' FNL 2630' FEL 25-16S-30E
20		8	B 10' FNL 2630' FEL 25-16S-30E
17	A.N. Etz	1	660' FSL 660' FEL 25-16S-30E
17		2E	330' FSL 330' FWL 25-16S-30E
17		3	1980' FSL 1980' FEL 25-16S-30E
17		4E	1980' FSL 660' FEL 25-16S-30E
17		5	10' FSL 2630' FEL 25-16S-30E
17		6	1315' FSL 1315' FEL 25-16S-30E
28	Continental State	1	F 1980' FNL 1980' FWL 36-16S-30E
28		2	E 1980' FNL 660' FWL 36-16S-30E
28		3	C 660' FNL 1980' FWL 36-16S-30E
28		4	D 660' FNL 660' FWL 36-16S-30E
29A	Witch	1	H 1330' FNL 1310' FEL 36-16S-30E
29A		1	H 1650' FNL 1650' FEL 36-16S-30E
29	State H	1	G 1980' FNL 1980' FEL 36-16S-30E
29		2	B 660' FNL 1980' FEL 36-16S-30E
29		3	A 810' FNL 600' FEL 36-16S-30E
29		4	A 10' FNL 10' FEL 36-16S-30E
13	ETZ Federal	1	M 660' FSL 504' FWL 19-16S-31E
13		2	N 660' FSL 1668' FWL 19-16S-31E
13		3	I 1650' FSL 990' FEL 19-16S-31E
13		4	J 1980' FSL 1980' FEL 19-16S-31E
23A	Carper Federal	1	1980' FSL 500' FWL 19-16S-31E
23	Carper Federal	2	1980' FSL 1660' FWL 19-16S-31E
8	Vickers	5	P 660' FSL 660' FEL 19-16S-31E
8		6	O 660' FSL 1980' FEL 19-16S-31E
9	Grier Federal	3	M 330' FSL 510' FWL 20-16S-31E
9		4	N 990' FSL 1980' FWL 20-16S-31E

		EXHIBIT "I"			
TRACT	LEASE	WELL	LOCATION		
		NO.			
15	Grier Federal	13	J 1980'	FSL 1980'	FEL 20-16S-31E
15		14	I 1980'	FSL 660'	FEL 20-16S-31E
25	Baxter A	1	O 660'	FSL 1980'	FEL 20-16S-31E
25		2	P 660'	FSL 660'	FEL 20-16S-31E
9A	Rowley	1	1980'	FSL 660'	FWL 20-16S-31E
9A		1	1650'	FSL 1980'	FWL 20-16S-31E
9A		2	1650'	FSL 990'	FWL 20-16S-31E
18	Valentine	1	660'	FSL 660'	FWL 27-16S-31E
18		2	1650'	FSL 990'	FWL 27-16S-31E
18A	Trust K-27	1	1980'	FSL 1980'	FWL 27-16S-31E
19	Chase Featherstone	1	330'	FSL 330'	FEL 27-16S-31E
19A	Trust	1	1980'	FNL 1650'	FWL 27-16S-31E
22	Federal J27	1	1650'	FSL 2310'	FEL 27-16S-31E
22A	Federal	1	1980'	FNL 660'	FWL 27-16S-31E
22A		2	1980'	FNL 1980'	FEL 27-16S-31E
22A		4	660'	FNL 660'	FWL 27-16S-31E
22B	Riley	1	990'	FSL 2310'	FEL 27-16S-31E
26	Jeffers Fed	1	660'	FSL 1980'	FWL 27-16S-31E
26		2	990'	FSL 1650'	FWL 27-16S-31E
2	Johnson-Kennedy	2	M 660'	FSL 660'	FWL 28-16S-31E
2		4	L 1980'	FSL 660'	FWL 28-16S-31E
2A	Kennedy	3	J 2310'	FSL 1650'	FEL 28-16S-31E
2A		7B	O 660'	FSL 1980'	FEL 28-16S-31E
2A		1	1980'	FNL 660'	FEL 28-16S-31E
2A		4(2)	660'	FNL 660'	FEL 28-16S-31E
3A	Kennedy A	2	1650'	FNL 2310'	FWL 28-16S-31E
3A		3	660'	FNL 1650'	FWL 28-16S-31E
4	Sheldon Fed	1	2068'	FNL 2180'	FEL 28-16S-31E
4		4(1)	1980'	FNL 1650'	FEL 28-16S-31E
4		3	330'	FSL 626'	FEL 28-16S-31E
4		5(2)	2310'	FSL 660'	FEL 28-16S-31E
4		5B	300'	FSL 660'	FEL 28-16S-31E
4		1	1980'	FSL 1980'	FWL 28-16S-31E
4		2	560'	FSL 1880'	FWL 28-16S-31E
4		2	660'	FSL 1980'	FWL 28-16S-31E

		EXHIBIT "I"					
		WELL					
TRACT	LEASE	NO.	LOCATION				
4A	Johnson	6(3)	660'	FNL	330'	FWL	28-16S-31E
4A		4	660'	FNL	660'	FWL	28-16S-31E
9	Grier Federal	1	D	760'	FNL	560'	FWL 29-16S-31E
9		2	C	810'	FNL	1980'	FWL 29-16S-31E
12	JN Fidel A	3	B	660'	FNL	1980'	FEL 29-16S-31E
12		4	A	810'	FNL	990'	FEL 29-16S-31E
12		5	A	50'	FNL	50'	FEL 29-16S-31E
16	Bruning	1	E	1980'	FNL	660'	FWL 29-16S-31E
16		2	F	1980'	FNL	1980'	FWL 29-16S-31E
16		3	G	1980'	FNL	1980'	FEL 29-16S-31E
16		4	H	1980'	FNL	660'	FEL 29-16S-31E
16		5	I	1980'	FSL	660'	FEL 29-16S-31E
16		6	O	660'	FSL	1980'	FEL 29-16S-31E
24	Carper G	1	J	1980'	FSL	1980'	FEL 29-16S-31E
24		2	P	660'	FSL	660'	FEL 29-16S-31E
24		3	J	1980'	FSL	1880'	FEL 29-16S-31E
24		4	P	550'	FSL	550'	FEL 29-16S-31E
11	Texas Trading A	1	M	660'	FSL	660'	FWL 29-16S-31E
11		2	N	660'	FSL	1980'	FWL 29-16S-31E
11		3	L	1980'	FSL	660'	FWL 29-16S-31E
11		4	K	1880'	FSL	1980'	FWL 29-16S-31E
20	LOE	1	K	1650'	FSL	1346'	FWL 30-16S-31E
20		1	E	1980'	FNL	503'	FWL 30-16S-31E
20		1	D	660'	FNL	660'	FWL 30-16S-31E
20		1	M	660'	FSL	660'	FWL 30-16S-31E
20		1	N	660'	FSL	1980'	FWL 30-16S-31E
20		2	K	1980'	FNL	1346'	FWL 30-16S-31E
20		2	C	810'	FNL	1666'	FWL 30-16S-31E
20		2	F	1980'	FNL	1670'	FWL 30-16S-31E
20		2	L	1980'	FSL	566'	FWL 30-16S-31E
20		2	F	1980'	FSL	1980'	FWL 30-16S-31E
20		3	C	330'	FNL	1995'	FWL 30-16S-31E
20		5	E	2630'	FNL	10'	FWL 30-16S-31E
20		7	D	10'	FNL	10'	FWL 30-16S-31E
20		9	M	990'	FSL	330'	FWL 30-16S-31E
20	10	E	1790'	FNL	330'	FWL 30-16S-31E	
20	11	N	660'	FSL	1346'	FWL 30-16S-31E	
8	Vickers	1	H	1980'	FNL	660'	FEL 30-16S-31E
8		2	A	660'	FNL	660'	FEL 30-16S-31E
8		3	G	1980'	FNL	1980'	FEL 30-16S-31E
8		4	B	660'	FNL	1980'	FEL 30-16S-31E
8		7	G	1345'	FNL	1345'	FEL 30-16S-31E

EXHIBIT "I"

TRACT	LEASE	WELL	
		NO.	LOCATION
15	Grier	10	O 660' FSL 1980' FEL 30-16S-31E
15		12	J 1980' FSL 1980' FEL 30-16S-31E
15		19	O 990' FSL 1650' FEL 30-16S-31E
12	JN Fidel	1	P 660' FSL 660' FEL 30-16S-31E
12		2	I 1980' FSL 660' FEL 30-16S-31E
15	Grier	1	D 660' FNL 660' FWL 31-16S-31E
15		2	E 1980' FNL 660' FWL 31-16S-31E
15		3	C 660' FNL 1980' FWL 31-16S-31E
15		4	F 1980' FNL 1980' FWL 31-16S-31E
15		4Y	F 1980' FNL 1950' FWL 31-16S-31E
15		5	G 1980' FNL 1980' FEL 31-16S-31E
15		6	J 1980' FSL 1980' FEL 31-16S-31E
15		7	H 3300' FSL 660' FEL 31-16S-31E
15		7X	H 3300' FSL 675' FEL 31-16S-31E
15		9	A 660' FNL 600' FEL 31-16S-31E
15		11	B 660' FNL 1980' FEL 31-16S-31E
15		15	B 10' FNL 2630' FEL 31-16S-31E
15		16	E 2630' FNL 10' FWL 31-16S-31E
15		17	A 330' FNL 660' FEL 31-16S-31E
15		18	O 660' FSL 1980' FEL 31-16S-31E
15	20	C 1250' FNL 1031' FWL 31-16S-31E	
14	Grier A Federal	1	K 1980' FSL 1680' FWL 31-16S-31E
27	Grier B Federal	1	L 1980' FSL 660' FWL 31-16S-31E
27		2	L 1370' FSL 927' FWL 31-16S-31E
21	HJ LOE Federal	1	N 330' FSL 1357' FWL 31-16S-31E
21		3	L 660' FSL 320' FWL 31-16S-31E
21		4	M 660' FSL 1980' FWL 31-16S-31E
21		5	M 660' FSL 330' FWL 31-16S-31E
10	Grier	1	P 330' FSL 330' FEL 31-16S-31E
25	Baxter A	5	I 1980' FSL 660' FEL 31-16S-31E
33	Zephyr ZQ State	1	D 660' FNL 660' FWL 32-16S-31E
33		1	N 660' FSL 1980' FWL 32-16S-31E
33		2	L 1980' FSL 660' FWL 32-16S-31E
33		2	E 1620' FNL 1020' FWL 32-16S-31E
33		3	C 660' FNL 1980' FWL 32-16S-31E
33		4	F 1960' FNL 1930' FWL 32-16S-31E

EXHIBIT "I"

<u>TRACT</u>	<u>LEASE</u>	<u>WELL NO.</u>	<u>LOCATION</u>
33	Zephyr ZQ State	1	B 330' FNL 2310' FEL 32-16S-31E
33		1	B 660' FNL 1980' FEL 32-16S-31E
33		2	A 660' FNL 660' FEL 32-16S-31E
33		3	H 1980' FNL 660' FEL 32-16S-31E
33		4	G 1980' FNL 1980' FEL 32-16S-31E
31	Tidewater State	1	I 1980' FSL 660' FEL 32-16S-31E
31		2	O 660' FSL 1980' FEL 32-16S-31E
32	Western Dev A State	1	P 660' FSL 660' FEL 32-16S-31E
32		2	J 1980' FSL 1980' FEL 32-16S-31E
2	Johnson-Kennedy	4	M 660' FSL 660' FWL 33-16S-31E
2		5	L 1980' FSL 660' FWL 33-16S-31E
5	Texas Trading	1	D 660' FNL 660' FWL 33-16S-31E
5		2	E 1880' FNL 660' FWL 33-16S-31E
5		3	B 660' FNL 1980' FEL 33-16S-31E
5		4	G 1980' FNL 1980' FEL 33-16S-31E
5		5B	K 1980' FSL 1980' FWL 33-16S-31E
5		6	I 1980' FSL 660' FEL 33-16S-31E
5		7	N 810' FSL 1980' FWL 33-16S-31E
5		8	B 1270' FNL 1650' FEL 33-16S-31E
5		9	P 660' FSL 660' FEL 33-16S-31E
3	Johnson A	1	C 660' FNL 1980' FWL 33-16S-31E
3		3	F 1980' FNL 1980' FWL 33-16S-31E
2	Johnson-Kennedy	5	H 1980' FNL 660' FEL 33-16S-31E
2		6	A 660' FNL 660' FEL 33-16S-31E
2		13	H 1370' FNL 990' FEL 33-16S-31E
2		14	O 510' FSL 2310' FEL 33-16S-31E
2		15	J 2310' FSL 1650' FEL 33-16S-31E
2		16	O 330' FSL 2310' FEL 33-16S-31E
7	Carper AB	1	I 1980' FSL 660' FEL 34-16S-31E
7		2	P 660' FSL 660' FEL 34-16S-31E
7		3B	E 1980' FNL 660' FWL 34-16S-31E
7		4	D 660' FNL 660' FWL 34-16S-31E
1	Carper Federal	5	K 1980' FSL 1980' FWL 34-16S-31E
1		6	N 660' FSL 1980' FWL 34-16S-31E

EXHIBIT "I"

<u>TRACT</u>	<u>LEASE</u>	<u>WELL NO.</u>	<u>LOCATION</u>
2	Johnson-Kennedy	8	L 1980' FSL 660' FWL 34-16S-31E
2		9	F 1980' FNL 1980' FWL 34-16S-31E
2		10	M 660' FSL 660' FWL 34-16S-31E
2		11	J 1980' FSL 1980' FEL 34-16S-31E
2		12	O 990' FSL 1980' FEL 34-16S-31E
2		18	J 1980' FSL 2080' FEL 34-16S-31E
6	Johnson-Kennedy	17	G 2310' FNL 1980' FEL 34-16S-31E
2B	Kennedy	1	H 1980' FNL 660' FEL 34-16S-31E
2B		1	660' FNL 1980' FWL 34-16S-31E
2B		6	F 2310' FNL 1650' FWL 34-16S-31E
2B		2	1980' FNL 330' FEL 34-16S-31E
6A	Kennedy A	1	660' FNL 1980' FEL 34-16S-31E

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERSHIP OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNERSHIP AND PERCENTAGE(S)	WORKING INTEREST OWNERSHIP AND PERCENTAGE(S)
1	I-18-S R-31-E SEC. 34 E/2 SW/4 (CARPENTER FEDERAL 506)	80	LC-029438(B) HBP 11/1/81	MINERALS MANAGEMENT SERVICE 12.50%	OXY USA, INC 100%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.06% OXY USA INC. 3.13% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
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2
I-36-3 R-31E
SEC 28 NW/4 SE/4
W/2 SW/4
SW/4 SE/4
W/2 SW/4
E/2 NE/4
W/2 SE/4
SEC 34 SE/4 NE/4
SE/4 NW/4
W/2 SW/4

MINERALS MANAGEMENT
SERVICE
12.50%

EXXON CORP
100.00%

SQUARE LAKE
PARTNERS LLC
100.00%

(KENNEDY JOHNSON FEDERAL)

ELLEN PALMA 0.05%	WILLIAM HORTON 0.06%	B & H PROPERTIES 0.06%
MADINE PARR 0.26%	T. F. LUGARIC 1.11%	CARL BRINNSTOOL 0.15%
B. ROSENTHAL TRUSTEE 0.19%	SAMUAL LUKS 0.26%	LOGAN ROYALTIES 1.10%
PEGGY RUNYAN 5.47%	STEPHEN MCNAIL 0.02%	POGAR PETROLEUM 0.15%
MORRIS RADMAN 1.22%	WILLIAM H. MCMAIL 0.02%	ROCKY MOUNTAIN RES. 0.06%
M&B GOLDMAN RADMAN 0.12%	FLORENCE MILLER 0.37%	BERNARD ALPERN 0.56%
PATRICIA SCHAEH 0.34%	R. B. MILLER FOUNDATION 0.93%	TRUST FOR C. BEAL JR. 0.48%
JUDITH SMITH 0.13%	VICKY MOSER 5.47%	TRUST FOR B. BEAL 0.48%
MELBA TROBAUGH 1.71%	ELIZABETH MUROV 0.24%	TRUST FOR S. BEAL 0.48%
HARVEY WACHTEL 0.19%	ERICA MUROV (FIBO) 0.12%	TRUST FOR K. BEAL 0.48%
CAROLE WINTER EST 0.30%	ZACHRY MUROV (FIBO) 0.12%	TRUST FOR K. GEUBER 0.48%
NANCY WINTER 0.40%	R. W. PAGE 0.08%	H. H. BLACK TRUST 0.09%
STATES EMPLOYEE 87 LTD. 5.475%	E. PALMA TRUST 1.85%	CAROL BROOKMAN 0.06%
		CERRI FAMILY TRUST 0.18%
		D. FLUGSTAD 0.02%
		AMB FOREMAN 19% G. N. FRANK ESTATE 0.56% R. J. HA. FORSEL 0.46%

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

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TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
24	L-16-S-16-31-E SEC. 26 : E2 NE/4	80	LC-06602-B 11/1/81 HBP	MINERALS MANAGEMENT SERVICE 12.50%	EXXON CORP 100%	NONE	CHASE OIL CORP. 100.00%

KENNEDY FEDERAL

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

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28	T-15-S-1-R-31-E SEC. 34 NE-4 NE-4 NW-4	40 40 80	LC-066302-B 11/1/91 HBP	MINERALS MANAGEMENT SERVICE 12.50%	EXXON CORP. 100%	NONE	DONALD B. ANDERSON 50.00% DAVID C. COLLIER BERT M. JONES J.T. HAILE JR. ROBERT GLEASON 50.00%

KENNEDY FEDERAL

ILLEGIBLE

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico**

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TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	CURRENT OWNERSHIP OF RECORD TITLE AND PERCENTAGE	OVERRIDING ROYALTY OWNERSHIP AND PERCENTAGE	WORKING INTEREST OWNERSHIP AND PERCENTAGE
3	1-16S R-31-E SEC. 33 E/2 NW/4 (JOHNSON A. FEDERAL)	80	LC-0805-48 HBP 11/1/91	MINERALS MANAGEMENT SERVICE 12.50%	CHASE OIL CORP. 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% FRANK DARDEN 1.02% JAQUELINE DICKERSON 0.51% CAROLE GAUNTT 0.51% VICKY MOSER 10.94% PEGGY RUNYAN 10.94%	SQUARE LAKE PARTNERS LLC 100.00%

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND ---(LEASE NAME)	NUMBER OF ---ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERBURDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
3A	T-18S., R-31E SEC. 28 E/2 NW/4	40	LC-081548 11/1/91 HBP	MINERALS MANAGEMENT SERVICE 12.50%	CHASE OIL CORP.	NONE	CHASE OIL CORP. 100.00%

KENNEDY FED 'A'

ILLEGIBLE

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico**

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<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND (LEASE NAME)</u>	<u>NUMBER OF ACRES</u>	<u>SERIAL NO. EXPIRATION AND DATE OF LEASE(S)</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)</u>	<u>CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)</u>	<u>OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)</u>	<u>WORKING INTEREST OWNER(S) AND PERCENTAGE(S)</u>
4	I-16-S-R-31-E SEC. 28 SW/4 NW/4 (SHELDON FEDERAL)	40	LC-063105 HBP 11/1/91	MINERALS MANAGEMENT SERVICE 12.50%	DALE RESLER 50% VILAS P. SHELDON 50%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15%	SQUARE LAKE PARTNERS LLC 100.00%
						LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES. 0.06% VICTOR J. SIRGO 1.00%	

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

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4A	T:1B-S...R-31E SEC. 28 : NW/4 NW/4 W/2 NE/4 E/2 SW/4 E/2SE/4	40 80 80 80 280	LC-063105 11/1/81 HBP	MINERALS MANAGEMENT SERVICE 12.50%	DALE RESLER 50% VILAS P. SHELDON 50%	NONE	CHASE OIL CORP. 100.00%

JOHNSON

ILLEGIBLE

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

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5	1-16-S-R-31-E SEC 33 W/2 NE/4 W/2 NW/4 E/2 SW/4 E/2 SE/4	320	LC-063368 HBP 11/1/91	MINERALS MANAGEMENT SERVICE 12.50%	R. L. TAYLOR 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% FOGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% E. T. BOYLE TRUST 4.50% JOHN BOYLE TRUST 10.70% FIBO RUTH TAYLOR 4.58% RL TAYLOR JR TR# 1071001 10.70%	SQUARE LAKE PARTNERS LLC 100.00%

(TEXAS TRADING FEDERAL)

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico**

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6	L.B.S.R. 31E SEC. 34 SW 1/4 NE 1/4 (JOHNSON FEDERAL)	40	LC-065581 HBP 11/1/81	MINERALS MANAGEMENT SERVICE 12.50%	CHASE OIL CORP. 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.45% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% FRANK DARDEN 1.02% JAQUELINE DICKERSON 0.51% CAROLE GAUNTT 0.51% VICKY MOSER 10.94% PEGGY RUNYAN 10.94%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNERS(S) AND PERCENTAGE(S)	WORKING INTEREST OWNERS(S) AND PERCENTAGE(S)
6A	T-16-S. R-31-E SEC. 34 NW/4 NE/4	40	LC-066661 11/1/91	MINERALS MANAGEMENT SERVICE 12.50%	CHASE DIL CORP 100%	NONE	DONALD B. ANDERSON 50.00% DAVID C. COLLIER BERT M. JONES J.T. HALL JR. ROBERT GLEASON 50.00%

KENNEDY FEDERAL 'A'

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico**

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TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERBIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
7	T-16-S-B-31-E SEC. 34 E2 SE14 W1/2 NW1/4 (CARPER FEDERAL AB)	160	LC-065561-A HBP 11/1/71	MINERALS MANAGEMENT SERVICE 12.50%	OXY U.S.A. INC. 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.09% OXY USA INC. 3.13% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
3	I-1B-SR-31-E SEC. 19 S2 SE/4	240	LC-028431 HBP	MINERALS MANAGEMENT SERVICE 12.50%	NATIONAL COOPERATIVE REFINERY 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.06% VICTOR J. SIRGO 1.00% SELMA ANDREWS 0.13% BRADLEE INSTITUTE 0.12% MAX W. COLL II 0.05% JON F. COLL 0.05% JAMES N. COLL 0.05% COLUMBINE II LTD PART 0.31% CHARLES H. COLL 0.05% ROSE COTTINGHAM 0.25% VERA COX HAEFS 0.03% HIGGINS TRUST INC 0.25% JAMES PETROLEUM TR 0.13%	SQUARE LAKE PARTNERS LLC 100.00%
	SEC 30 NE/4 (VICKERS FEDERAL)						

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EXHIBIT "B-1"

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Eddy County, New Mexico

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9	T-16-S-R-31-E SEC 20 S/2 SW/4 SEC 20 N/2 NW/4 (GRIER FEDERAL 1-4)	160	LC-029637 HBP 12/31/38	MINERALS MANAGEMENT SERVICE 12.50%	JACK D. KNOX 16.67% WINNIE D. KNOX 50.00% THERA KNOX HELM 16.67% TEXACAL OIL & GAS INC 16.67%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.09% WILLIAM & MARGRET COLBY 1.86% THERYLENE K HELM 5.71% JACK D KNOX 5.71% MRS. T. B. KNOX 17.13% TEXACAL OIL & GAS INC 5.71%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

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9A	T-16-S, R-31-E SEC 20 N2 SW14	80	LC-0605-43 12/31/38 HBP	MINERALS MANAGEMENT SERVICE 12.50%	OXY USA, INC.	NONE	CHASE OIL CORP 43.33% BHN, LLC 16.67%

ROWLEY FEDERAL

ILLEGIBLE

ILLEGIBLE

EXHIBIT "B-1"

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10	T.16S., R.31E. SEC. 31. SE/4 SE/4	40	LC-060543 HBP 12/31/38	MINERALS MANAGEMENT SERVICE 12.50%	OXY U.S.A. INC. 100%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES LTD 1.10% POGAR PETR LTD 0.15% ROCKY MOUNTAIN RES 0.08% WILLIAM J. & MARGRET COLBY 1.88% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

GRIER FEDERAL

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Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERSHIP OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDE ROYALTY OWNERSHIP AND PERCENTAGE(S)	WORKING INTEREST OWNERSHIP AND PERCENTAGE(S)
11	I. 16 S. E. 31 E. SEC. 29 SW 1/4 (TEXAS TRADING & FEDERAL)	160	LC-060723 HBP 12/31/36	MINERALS MANAGEMENT SERVICE 12.50%	R. L. TAYLOR 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.06% E. T. BOYLE TRUST 4.18% JOHN BOYLE TRUST 9.71% WILLIAM & MARGRET COLBY 1.875% DOROTHY FOSTER RYOC TRUST 1.9625% W. R. PHILLIPS .66% F. B. O. RUTH TAYLOR 4.16% R. L. TAYLOR JR TR# 1071001 9.7137% LELAND PRICE, INC. 4.02%	SQUARE LAKE PARTNERS, LLC 100.00%

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNERS AND PERCENTAGE(S)	WORKING INTEREST OWNERS AND PERCENTAGE(S)
12	L-16-S-R-31E SEC. 29 W2 NE/4 SEC. 30 E2 SE/4 (JN & M FIDEL FEDERAL)	160	LC-000871 HBP 12/31/38	MINERALS MANAGEMENT SERVICE 12.50%	YATES PETROLEUM CORP 100.00%	R & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% FOGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRGD 1.00% WILLIAM J. AND MARGRET COLBY 1.88% GETRUDE MCCORMAN TRUSTEE 3.13%	SQUARE LAKE PARTNERS LLC 100.00%

ILLEGIBLE

EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE INTEREST)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERBURDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
15	I-16-S-R-31E SEC. 20 N/2 SE/4 SEC. 30 W/2 SE/4 SEC. 31 LOT 1 LOT 2 E/2 N/4 NE/4 W/2 SE/4	560	LC-068064 HBP 12/31/98	MINERALS MANAGEMENT SERVICE 12.50%	SUMMIT OVERSEAS EXPL 100.00%	B & H PROPERTIES 0.00% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRGD 1.00% SUMMIT OVERSEAS EXPLORATION 5.00% COLBY REVOCABLE LIVING TRUST 1.88%	SQUARE LAKE PARTNERS LLC 100.00%

(GRIER FED 53-11 12.19)

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
16	T.15S., R.31E SEC. 29 S2 N2 NE1/4 SE1/4 SW1/4 SE4	2.40	NM-75501 HBP 12/31/98	MINERALS MANAGEMENT SERVICE 12.50%	XERIC OIL & GAS INC.	B A H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES LTD 1.10% POGAR PETR LTD 0.15% ROCKY MOUNTAIN RES 0.08% WILLIAM J. & MARGRET COLBY 1.88% VICTOR J SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

BRUNING FEDERAL (1-6)

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
17	E-10-S-1-R-30-E SEC. 25 SE/4	160	LC-0724024 1/11/40 HBP	MINERALS MANAGEMENT SERVICE 12.50%	BRIGHT & COMPANY 100%	MORELAND HARTWELL 1.25% BOB FRANKLIN 1.25% HARRY LEONARD 1.00% ADA MY ETZ 0.88% J DOUGLAS BRAUNER JR. 3.13% YANCEY-HARRIS CO 0.65%	CHASE OIL CORP 100.00%

AN ETZ FEDERAL

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
18	L-16-S-1-R-31-E SEC 27 : W2 SW/4	80	LC-080476 3/1/45 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%		MARBOB ENERGY CORP. 100.00%

VALENTINE FEDERAL

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND ---(LEASE NAME)---	NUMBER OF ---ACRES---	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
18A	E-16-S-1-R-31-E SEC 27 NE1/4 SW1/4	40	LC-000476 3/1/45 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	PAUL SLAYTON 6.25%	BULLDOG ENERGY CORP 100.00%

TRUST K-27

ILLEGIBLE

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
19	T-1E-S. R-31-E SEC 27 SE/4 SE/4	40	NM-90266 10/1/56 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	PAUL SLAYTON 12.50%	DAVID C COLLIER 25.00% BERT M JONES 25.00% J.T. HAULE JR 25.00% ROBERT GLEASON 25.00%

CHASE-FEATHERSTONE

ILLEGIBLE

EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
19A	L-10-S-R-31-E SEC 27 SE1/4 NW1/4	40	NM-80266 10/1/51 HRP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	PAUL SLAYTON 5.00%	KENNEDY OIL COMP. 100.00%

TRUST-FED

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
20	I-16-S-R-31-E SEC. 30 LOT 1 LOT 2 LOT 3 LOT 4 EQU/W2 I-16-S-R-30-E SEC. 25 NE 1/4 (LOE FEDERAL)	442.48	NM-97781 HBP 6/1/52	MINERALS MANAGEMENT SERVICE 12.50%	MARBOB ENERGY CORP 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRGO 0.33% WARREN SALLEE 1.97% CALVIN E. STAPLES 1.00%	SQUARE LAKE PARTNERS LLC 33.34% KM JONES OIL CO. 33.33% STAPLES OIL COMPANY 33.33%

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EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS) OF RECORD TITLE AND PERCENTAGE(S)	OVERBURDING ROYALTY OWNERS(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
21	I-16-S-R-31-E SEC. 31 LOT 4 SE/4 SW/4 (H.J. LOE FEDERAL 1-5)	80	NM-081277 HBF 6-1-52	MINERALS MANAGEMENT SERVICE 12.50%	LOUIS DREYFUS NATURAL GAS CORP. 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE	WORKING INTEREST OWNER(S) AND PERCENTAGE
22	T-16-S-R-31E SEC. 27 NW1/4 SE1/4	40	NM-04381 8/1/52 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	NONE	MARBOB ENERGY CORP 100.00%

FEDERAL 27-J

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNERSHIP AND PERCENTAGE(S)	WORKING INTEREST OWNERSHIP AND PERCENTAGE(S)
22A	T-16-S-16-31-E SEC. 27 SW1/4 NE1/4 W2 NW1/4	40 80 120	NM-04361 8/1/52 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	PAUL SLAYTON 5.00%	CHASE OIL CORP. 100.00%

FEDERAL

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EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
228	T-18-S-1-R-31E SEC 27: SW/4 SE/4	40	NM-04361 6/1/52 HBP	MINERALS MANAGEMENT SERVICE 12.50%	PAUL SLAYTON 100%	PAUL SLAYTON 12.50%	DONALD B. ANDERSON 50.00% BULLDOG ENERGY CORP 50.00%

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EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
29	1-16-S., R-31E SEC. 18 : NE1/4 SW1/4	40	NM-016803 2/1/55	MINERALS MANAGEMENT SERVICE 12.50%	OXY USA, INC. 100%	CARPER DRILLING CO. 6.25%	CHASE OIL CORP. 100.00%

CARPER FEDERAL

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EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE	WORKING INTEREST OWNER(S) AND PERCENTAGE
23A	1-16-S-R-31-E SEC. 16 NW/4 SW/4 (LOT 3)	40	NM-018903 2/1/55 HBP	MINERALS MANAGEMENT SERVICE 12.50%	OXY USA, INC.	CARPER DRILLING CO. 6.25% JERRY CURT 1.63%	CHASE OIL CORP. 100.00%

CARPER FEDERAL

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE	OVERRIDING ROYALTY OWNERS AND PERCENTAGE	WORKING INTEREST OWNERS AND PERCENTAGE
24	I.L.S.B-31-E SEC. 29 NW/4 SE/4 SE/4 SE/4 (CARPER G)	80	NM-77798 HBP 2/1/55	MINERALS MANAGEMENT SERVICE 12.50%	SQUARE LAKE PARTNERS LLC. 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOD 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.06% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDDING ROYALTY OWNER(S) AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
NM-0148853 4/1/61 HBP	MINERALS MANAGEMENT SERVICE 12.50%	GEORGE CHASE 100%	GEORGE CHASE 18.75% NT			

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EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

FEDERAL LANDS :

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND (LEASE NAME)</u>	<u>NUMBER OF ACRES</u>	<u>SERIAL NO. EXPIRATION AND DATE OF LEASE(S)</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)</u>	<u>CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)</u>	<u>OVERHUNG ROYALTY OWNER(S) AND PERCENTAGE(S)</u>	<u>WORKING INTEREST OWNER(S) AND PERCENTAGE(S)</u>
27	I-18-S-R-31-E SEC 31 LOT 3 (GRIER FEDERAL B-2)	33.48	MM-54428 HBP 1/1/83	MINERALS MANAGEMENT SERVICE 12.50%	ROBERT E. BOLING 100.00%	B & H PROPERTIES 0.00% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRCO 1.00% ROBERT E. BOLING 8.25% RAY & KAREN WESTALL 6.25%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

STATE LANDS :

TRACT NO.	DESCRIPTION OF LAND (PLEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDDING ROYALTY OWNERS) AND PERCENTAGE(S)	WORKING INTEREST OWNERS) AND PERCENTAGE(S)
28	L-16-S-R-30-E SEC. 36 NW/4 (CONTINENTAL STATE)	180	R-2894 HBP 5/10/34	STATE OF NEW MEXICO 12.50%	CONOCO INC 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% FOGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES. 0.08% CONOCO INC. 5.47% ENTERLOC RESOURCES, INC 20.51%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

STATE LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERLAPPING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)		
29	I-16-S-R-30-E SEC. 36 N2 NE/4 (NM STATE "H" (23))	80	5-2884-14 HBP 5/10/34	STATE OF NEW MEXICO 12.50%	ANADARKO PETR. CORP. 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% BERT H. MURPHY 0.38% MAL C. PORTER 0.19% WINDELL IVERSON 1.04% W. IVERSON TRUST 1.69% SUJ JR 1990 TRUST 1.68% PIP W. IVERSON TRUST 1.69% L. WILDMAN CHAPMAN 0.09% T. WILDMAN MAILLARD 0.09% MAE CHANG FLASCH 0.09% R.N. AVERY MARITAL TRUST .75% CHARLES DEGUIGNE 0.28% DONALD FAICOMER 0.19%	S. J. IVERSON JR. 1.04% ROGER LAPHAM JR 0.84% LLOYD MCGHEE 0.19% E. WELCH POPE 0.10% P. ANN IVERSON PAGE 1.04% PHOEBE SHELTON 3.13% M. IRWIN WELCH 0.37% PHOEBE J. WELCH 0.39% PHOEBE J. WELCH IV 0.07% WENDELL T. WELCH 0.07% SANDERS T. WELCH 0.37% FLORE A WHITTINGTON 0.58%	CHRISTIAN DEGUIGNE 0.28%	SQUARE LAKE PARTNERS LLC 100.00%

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

FEDERAL LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
29A	I-16-S-16-30-E SEC 30: SW/4 NE/4	40	B-2084 5/10/34 HBP	STATE OF NEW MEXICO SERVICE	CYRUS JONES 100%		HERMAN LEDBETTER 100%

WITCH

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EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico**

STATE LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNERS(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNERS(S) AND PERCENTAGE(S)	WORKING INTEREST OWNERS(S) AND PERCENTAGE(S)
30	L-18-S R-30-E SEC 36 SE4 NE14 (NIM STATE / (1))	40	B-8669 HBP 3/11/40	STATE OF NEW MEXICO 12.50%	ELK OIL COMPANY 100.00%	B & H PROPERTIES 0.03% CARL BRINNSTOOL 0.15% LOGAN ROYALTIES 1.10% POGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% MAX W. COLL 3.13% JONF. COLL 3.13% JAMES N. COLL 3.13% CHARLES H. COLL 3.13%	SQUARE LAKE PARTNERS LLC 87.50% MAX W. COLL 3.13% JONF. COLL 3.13% JAMES N. COLL 3.13% CHARLES H. COLL 3.13%

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EXHIBIT "B-1"

**Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico**

STATE LANDS :

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND (LEASE NAME)</u>	<u>NUMBER OF ACRES</u>	<u>SERIAL NO. EXPIRATION AND DATE OF LEASE(S)</u>	<u>BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)</u>	<u>CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)</u>	<u>OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)</u>	<u>WORKING INTEREST OWNER(S) AND PERCENTAGE(S)</u>
31	L-16-S-R-31-E SEC 32 NE/4 SE/4 SW/4 SE/4 (TIDEWATER STATE)	80	E-7838 HBP 12/15/53	STATE OF NEW MEXICO 12.50%	TEXACO EXPL. & PROD INC 100.00%	B & H PROPERTIES 2.75% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 0.83% POGAR PETROLEUM 0.11% ROCKY MOUNTAIN RES 0.09% VICTOR J SIRGO 0.78%	SQUARE LAKE PARTNERS LLC 75.85% BORLAND INC 0.24% C Y PRODUCTION LLC 0.81% GBN INC. 0.24% R. MACE HOLMAN JR 0.81% JL SMITH CO. INC. 0.81% LATHROP DIAMOND BIT 1.88% RACHEL LYMAN 0.94% CV TEST TRUST 0.94% PRIDE ENERGY CO. 12.50% RBP LAND COMPANY 1.88% SE COM & EQUIP. CO 1.53% W. WATSON INC 1.88%

ILLEGIBLE

EXHIBIT "B-1"

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North Square Lake Unit
Eddy County, New Mexico

STATE LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE(S)	BASIC ROYALTY OWNERSHIP AND PERCENTAGE(S)	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE(S)	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
32	I-16-S-R-31-E SEC. 32 SE/4 SE/4 NW/4 SE/4 {WESTERN DEV. 'A' STATE (1,2)}	80	OG-1306 HBP 9/17/57	STATE OF NEW MEXICO 12.50%	LOUIS DREYFUS NAT GAS CORP 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.14% LOGAN ROYALTIES 1.05% POGAR PETROLEUM 0.14% ROCKY MOUNTAIN RES 0.07% MARATHON OIL COMP 6.25% JACK HALBERT 0.50% LOUIS DREYFUS NAT. 6.25% GIBEL PETR. LTD 1.00% KIMBERLY K. COMBS 0.75% FLORENCE M MAJOR 0.50% P.C. CHERRY 0.75% JAMES T WOOD 1.50%	SQUARE LAKE PARTNERS LLC 96.25% LATHROP DIAMOND BIT 3.75%

ILLEGIBLE

EXHIBIT "B-1"

Attached to Unit Agreement
North Square Lake Unit
Eddy County, New Mexico

STATE LANDS :

TRACT NO.	DESCRIPTION OF LAND (LEASE NAME)	NUMBER OF ACRES	SERIAL NO. EXPIRATION AND DATE OF LEASE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	CURRENT OWNER(S) OF RECORD TITLE AND PERCENTAGE	OVERRIDING ROYALTY OWNER(S) AND PERCENTAGE(S)	WORKING INTEREST OWNER(S) AND PERCENTAGE(S)
33	L-16-S R-31-E SEC 32 N2 SW/4 (ZEPHYR ZO STATE)	480	LC-3324 HBP 11/76	STATE OF NEW MEXICO 72.50%	YARES PETR. CORP. 100.00%	B & H PROPERTIES 0.03% CARL BRININSTOOL 0.15% LOGAN ROYALTIES 1.10% FOGAR PETROLEUM 0.15% ROCKY MOUNTAIN RES 0.08% VICTOR J. SIRGO 1.00%	SQUARE LAKE PARTNERS LLC 100.00%