

UNIT OPERATING AGREEMENT
PARKWAY DELAWARE UNIT
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
SIETE OIL & GAS CORP. EXHIBIT NO. 1
CASE NO. 10618 and 10619

**UNIT OPERATING AGREEMENT
PARKWAY DELAWARE UNIT
EDDY COUNTY, NEW MEXICO**

THIS AGREEMENT, entered into as of the 1st day of September, 1992, 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, a Unit Agreement, entitled "Parkway Delaware 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 the development and operation of the Unit Area as therein defined;

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

**ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT**

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

**ARTICLE 2
EXHIBITS**

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

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

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

2.2 Revision of Exhibits. Unit Operator shall revise Exhibit A from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

**ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS**

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

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

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

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

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Twenty-Five Thousand Dollars (\$25,000.00); provided, that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well

shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list 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; provided, that such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

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

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator.
- (b) be made at the expense of all Working Interest Owners other than the Working Interest designated as Unit Operator, and
- (c) be made upon not less than thirty (30) days written notice to Unit Operator.

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

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 C.

3.2.10 Assignments 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 or contraction of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

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

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners, having a total Unit Participation of not less than five percent (5%). No meeting shall be called on less than fourteen (14) days advance written notice with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 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 Participation.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty five percent (65%) or more voting interest; provided that, should any

one Working Interest Owner have more than fifty percent (50%) voting interest, its vote must be supported by the vote of two or more Working Interest Owners having a combined voting interest of at least five percent (5%).

4.3.3 Vote Required in Special Matters. Amendments to Exhibit C to this agreement shall be decided by the affirmative vote of three or more Working Interest Owners having a combined voting interest of at least eighty-five percent (85%).

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

4.3.5 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

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 copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator. Siete Oil & Gas Corporation is hereby designated as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time with the affirmative vote of at least eighty five percent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, 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 may be selected by the affirmative vote of at least eighty-five percent (85%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

ARTICLE 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

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

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in good and workmanlike manner as would a prudent operator under the same of 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 of willful misconduct.

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

7.4 Employees. The number of employed 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 accurate and complete books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

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

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty Five Thousand Dollars (\$25,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 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 prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

ARTICLE 8 TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or in respect of the production or handling of its share of Unitized Substances.

ARTICLE 9 INSURANCE

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

9.1.1 Carry Workmen's Compensation insurance in accordance with the Laws of the State of New Mexico.

9.1.2 Unit Operator shall carry insurance for the joint account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages or destruction resulting from Unit Operations. The insurance provided by Siete as Unit Operator is attached as Exhibit "D".

9.1.3 Unit Operator shall require all contractors engaged in work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Unit Operator's minimum requirements.

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, 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 lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, at Unit Expense, inventory and evaluate, in accordance with the provisions of Exhibit C, the personal property taken over.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all 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 of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest 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.

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

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit C. Each Working Interest Owner shall reimburse the Unit Operator for its share of Unit Expense as follows:

11.1.1 Beginning at 7:00 o'clock a.m. on the Effective Date hereof, all operating expenses shall be shared by Working Interest Owners in accordance with their applicable Unit Participation which is in effect at the time such expense is incurred.

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

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this agreement need to be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator & Non-Consent Penalty. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, 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 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 Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, together with a non-consent penalty of 200% of such non-operators proportionate share of expenses has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate 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. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the 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 be subrogated to the lien and rights herein granted Unit Operator.

11.7 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 Participation; provided, however, that in the event a Tract is qualified as a result of the execution of the indemnity provided by Section 9.1.2 of the Unit Agreement, the Working Interest Owner executing such indemnity shall bear the burden or take the benefits of such differences in royalty payments in the same proportion and to the same extent that such Working Interest is obligated by such indemnity with respect to the claims and demands referred to in said Section 9.1.2.

ARTICLE 12 NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

ARTICLE 13
TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit A, and hereby agrees to indemnify and hold harmless the other Working Interest Owners for any loss due to failure, in whole or in part, of its title to any such interest except failure of title arising out of Unit Operations; provided, that such indemnity shall be limited to 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 the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any working interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit 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 contained shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Ten Thousand Dollars (\$10,000.00); provided, the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above-specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15
INTERNAL REVENUE PROVISION

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

ARTICLE 16
NOTICES

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

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 other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, together with its interest in all Unit Equipment, and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participation. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by Working Interest Owners, less the cost of abandoning said wells. Should the cost to abandon be greater than the salvage value, then the party desiring to withdraw shall pay the difference to the Unit Operator at such time as the assignment is delivered. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

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 said well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, 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 the well located thereon which 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 on the date and at the time that 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 abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20 hereof; (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 net salvage value of the casing and equipment in and on the wells taken over as estimated by Working Interest Owners and by agreeing to plug properly each well at

Date

Byron Bachschmid
2508 Yorktown
Houston, TX 77056

STATE OF TEXAS)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1992 by Byron Bachschmid, a single man.

My Commission Expires:

Notary Public

Date

Viola S. Barnes
P. O. Box 714
Midland, TX 79702

STATE OF TEXAS)
) ss
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1992 by Viola S. Barnes, dealing in her sole and separate
property.

My Commission Expires:

Notary Public

Date

Laurie B. Barr
P. O. Box 8098
Asheville, NC 28814

STATE OF NORTH CAROLINA)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of
_____, 1992 by Laurie B. Barr (a single woman) (and her husband) ____
_____.

My Commission Expires:

Notary Public

Date

Jose E. Rodriguez
10418 Crescent Moon Drive
Houston, TX 77064

Date

Martha Rodriguez
10418 Crescent Moon
Houston, TX 77064

STATE OF TEXAS)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Jose E. Rodriguez and Martha Rodriguez, his wife.

Notary Public

My Commission Expires:

SANTA FE ENERGY RESOURCES
CORPORATION

Date

Title
550 West Texas, Suite 1330
Midland, TX 79701

STATE OF TEXAS)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by _____, _____ President of Santa Fe Energy Resources Corporation, a _____ corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

Date

Billy G. Underwood, Jr.
1000 Louisiana, Suite 6770
Houston, TX 77002

Date

Margaret Underwood
1000 Louisiana, Suite 6770
Houston, TX 77004

STATE OF TEXAS)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Billy G. Underwood, Jr. and Margaret Underwood, his wife.

My Commission Expires:

Notary Public

Date

Charles Worrell
P. O. Box 5608
Roswell, NM 88202

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Charles Worrell, a single man.

My Commission Expires:

Notary Public

EXHIBIT "A"

UNIT WORKING INTEREST

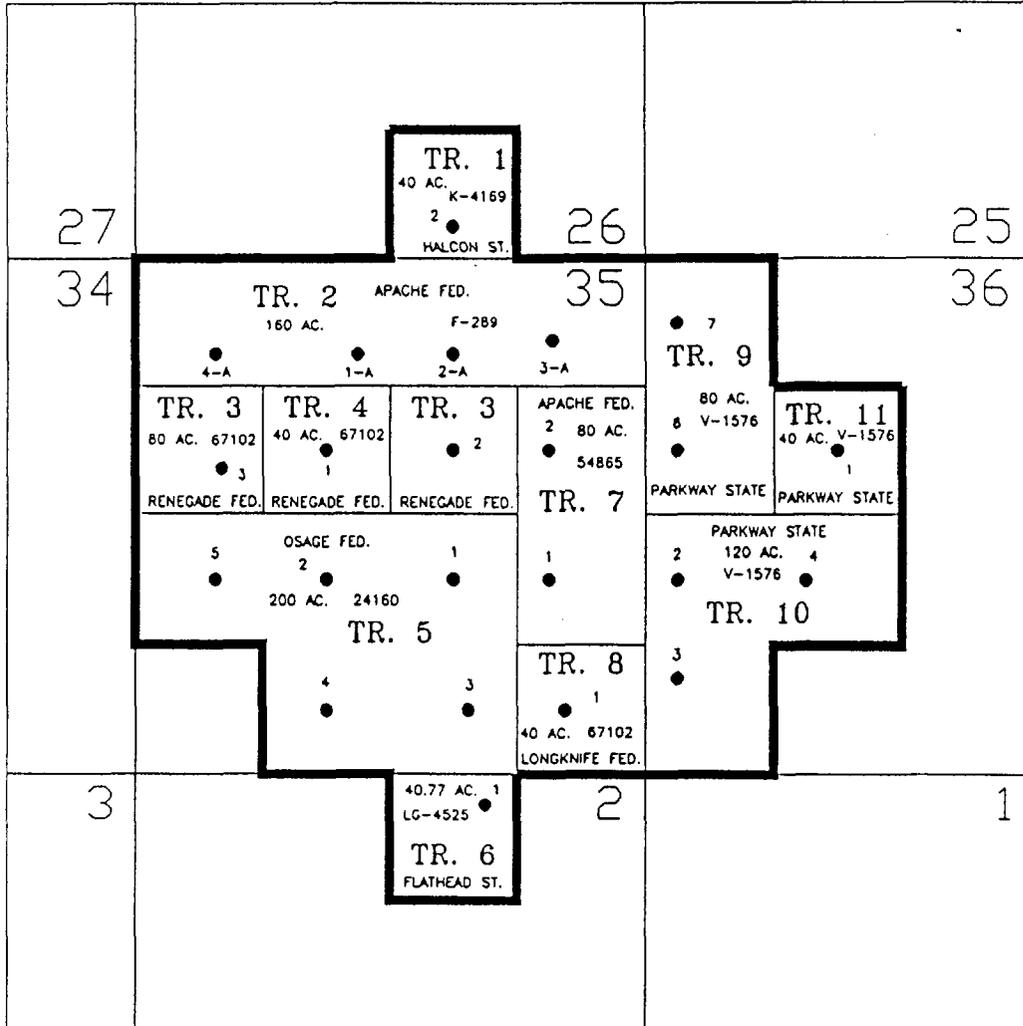
14-Jul-92	TRACT 1	TRACT 2	TRACT 3	TRACT 4	TRACT 5	TRACT 6	TRACT 7	TRACT 8	TRACT 9	TRACT 10	TRACT 11	UNIT TOTAL
ALASCO O&G			0.000468	0.000220	0.001142							0.001830
AUBREY DUNN, SR			0.002805	0.001322	0.006853	0.000489						0.011469
BILLY G UNDERWOOD			0.001870	0.000882	0.004568							0.007320
BLAKEFIELD ENERGY			0.001870	0.000882	0.004568	0.000326						0.007646
BORICA OIL			0.000935	0.000441	0.002284	0.000163						0.003823
BYRON BACHSCHMID			0.000935	0.000441	0.002284							0.003660
CAROLINA AMELUNXEN			0.000468	0.000220	0.001142	0.000082						0.001912
CHARLES GREER				0.000220	0.000457							0.000677
CHARLES WORRELL			0.000935	0.000441	0.002284							0.003660
CONOCO					0.057105							0.057105
DEAN KINSOLVING			0.001870	0.000882	0.004568	0.000326						0.007646
DR MICHAEL NORTON, III			0.002805	0.001322	0.006853	0.000489						0.011469
DR ROBERT DALE			0.000935	0.000441	0.002284	0.000163						0.003823
FRANCIS TRACY			0.000935	0.000441	0.002284							0.003660
GE HARRINGTON			0.000935	0.000441	0.002284	0.000163						0.003823
GENE SHUMATE			0.000935	0.000441	0.002284							0.003660
HANAGAN OIL PROP.					0.002284	0.000082						0.000082
HANSON OPERATING			0.014027	0.006510	0.028553							0.048089
HAROLD D JUSTICE			0.000935	0.000441	0.002284							0.003660
JIM IKARD			0.000468	0.000220	0.001142							0.001830
JOSE RODRIGUEZ			0.000701	0.000331	0.001713							0.002745
LARUE & MUNCY			0.004676	0.002204	0.011421	0.000815						0.019116
LAURIE BARR						0.000137						0.000137
MANZANO OIL CORP.			0.000935	0.000441	0.002284	0.000163						0.003823
MARINE & GAS INTER.			0.002805	0.001102	0.006711	0.000408						0.010025
MARY SOLDOW			0.000374	0.000220	0.001142	0.000082						0.001818
MERIDIAN OIL		0.254424					0.119002					0.373426
MOUNTAIN APPLE COMPANY			0.002338	0.001102	0.005711	0.000408						0.009558
NATHAN C GREER			0.001496	0.000441	0.002969	0.000245						0.005151
NEIL & MARILYN BURCHAM			0.000468	0.000220	0.001142							0.001830
PATRICK J MORELLO			0.000935	0.000441	0.002284	0.000163						0.003823
PATTY JENNINGS			0.000468	0.000220	0.001142							0.001830
PERMIAN HUNTER CORP.			0.000468	0.000220	0.001142	0.000082						0.001912
PETROLUX			0.002805	0.001102	0.006711	0.000408						0.010025
ROBERT AMELUNXEN			0.000468	0.000220	0.001142	0.000082						0.001912
SANTA FE			0.031170	0.017142	0.047597	0.003397		0.019633	0.027093	0.061301	0.012734	0.220068
SIETE OIL & GAS			0.033898	0.015072	0.043200	0.012451					0.004245	0.108865
SOUTHLAND ROYALTY												0.007279
STRATA	0.008475											0.003475
STUART D HANSON			0.000935	0.000441	0.002284							0.003660
T K CAMPBELL			0.001870	0.000882	0.004568	0.000326						0.007646
TEDDY JAMES			0.000935	0.000441	0.002284	0.000163						0.003823
THOMAS CAMPBELL, II			0.001870	0.000882	0.004568							0.007320
VIOLA BARNES						0.000062						0.000062
WILLIAM & LORETA HUNKER			0.000935	0.000441	0.002284	0.000163						0.003823
	0.008475	0.254424	0.124681	0.058770	0.285527	0.029115	0.119002	0.019633	0.027093	0.061301	0.016979	1.000000

EXHIBIT A-1

- Tract 1 SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 27, T-19-S, R-29-E
Containing Halcon State #2
- Tract 2 N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 35, T-19-S, R-29-E
Containing Apache A-1, A-2, A-3 & A-4
- Tract 3 SW $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Renegade 2 & 3
- Tract 4 SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Renegade 1
- Tract 5 N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Osage 1, 2, 3, 4 & 5
- Tract 6 NW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 2, T-20-S, R-29-E
Containing Flathead 1
- Tract 7 SE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Apache 1 & 2
- Tract 8 SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Longknife 1
- Tract 9 W $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-6 & 36-7
- Tract 10 W $\frac{1}{2}$ SW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-2, 36-3 & 36-4
- Tract 11 SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-1

Exhibit "B"

Township 19 South, Range 29 East



Township 20 South, Range 29 East

EDDY COUNTY, NEW MEXICO

PARKWAY FIELD

— PROPOSED WATERFLOOD BOUNDARY

Scale 1" = 2000'

Total Acreage = 920.77 Acres
 Federal Acreage = 600.00 Acres
 State Acreage = 320.77 Acres

EXHIBIT " c "

Attached to and made a part of that certain Unit Operating Agreement dated _____, 1992
between Siete Oil & Gas Corporation, Operator, and Alasco Oil & Gas, Inc., et al, Non-
Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and 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 ^{thirty (30)}~~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 ^{thirty (30)}~~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 Citibank
New York, New York 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.

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

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

5. Material

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

6. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No 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 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges 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 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

- (x) Fixed Rate Basis, Paragraph 1A, or
 () Percentage Basis, Paragraph 1B

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 4,900.00
 (Prorated for less than a full month)

Producing Well Rate \$ 490.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(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 \$ _____ :

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

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

3. Catastrophe Overhead

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

- A. _____ 5 _____ % of total costs through \$100,000; plus
- B. _____ 2 _____ % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. _____ 1 _____ % 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 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 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 prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¾ 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 ¾ 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 ¾ 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.

(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 stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

Attached to and made a part of that certain Unit Operating Agreement, Parkway Delaware Unit, dated _____, 1992 by and between Siete Oil & Gas Corporation, as Operator, and Alasco Oil & Gas, Inc., et al, as Non-Operator.

INSURANCE

Operator shall at all times during the terms of this Agreement or an extension thereof, and at all times relative thereto, carry insurance to protect the parties hereto as follows:

(a) Statutory Workmen's Compensation Insurance as may be required in the state or states where work under this agreement, or activities relative thereto, will be performed, plus Workmen's Compensation Insurance as may be required by Federal Law, if applicable, plus Employers Liability Insurance.

(b) Public Liability Insurance with bodily injury limits of not less than \$100,000 for death or injury to one person, and not less than \$300,000 for death or injury to more than one person in any one accident; and Public Liability property damage liability insurance with a limit of not less than \$100,000 for any one accident for loss of or destruction of, or damage to property. Said public liability insurance shall include Contractual Liability coverage and shall include Products Liability and Completed Operations coverage.

(c) Automobile Liability Insurance with bodily injury policy limits of not less than \$100,000 for death or injury to one person, or not less than \$300,000 for death or injury to more than one person in any one accident and property damage liability insurance with a limit of not less than \$100,000 for any one accident, for loss of or destruction of or damage to property.

(d) Insurance coverage of the types and amounts as set out in subsections (a), (b) and (c) hereinabove on subcontractors, service companies, and all others who may have been engaged, contracted with, or otherwise employed by Operator in the performance of this Agreement with such insurance coverage to cover the subcontractors service companies, or others so employed and all of their employees, except that Operator may require each such subcontractor, service company, or other person or organization to provide his, its or their own insurance coverage of the types and in the amounts specified hereinabove, and such person or organization, under such circumstances, shall furnish to Operator Certificates of Insurance as evidence of such insurance coverage.

UNIT AGREEMENT
PARKWAY DELAWARE UNIT
EDDY COUNTY, NEW MEXICO

UNIT AGREEMENT
PARKWAY DELAWARE UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1 day of September, 1992, 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 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 2 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 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:

ARTICLE 1
REGULATIONS

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.

ARTICLE 2 DEFINITIONS

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

2.1 Unit Area means the lands described by Tracts in Exhibit A and A-1; and shown on Exhibit B as to which this agreement becomes effective or to which it may be extended as herein provided.

2.2 Unitized Formation means that subsurface portion of the Unit Area commonly known as the Parkway Delaware formation, which is indicated by the electrical log in the following well at the depth shown:

<u>Operator</u>	<u>Well</u>	<u>Depth</u>
Siete Oil & Gas Corporation	Osage Federal No. 1 1980' FSL & 1980' FEL Sec. 35, T-19-S, R-29-E, Eddy County, New Mexico	50' above 3914' 50' below 4288'

2.3 Unitized Substances means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

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

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

2.6 Royalty Owner means a party hereto who owns a Royalty Interest.

2.7 Working Interest Owner means a party hereto who owns a Working Interest. The owner of Oil and Gas Rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of three-fourths (3/4) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-quarter (1/4) interest therein.

2.8 Tract means each parcel of land described as such and given a Tract number in Exhibit A, upon which is located a well on each nominal quarter section which is presently producing or has produced from the Unitized Formation.

2.9 Unit Operating Agreement means the agreement entitled "Unit Operating Agreement, Parkway Delaware Unit, Eddy County, New Mexico", of the same effective date as the effective date of this agreement.

2.10 Unit Operator means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

2.11 Tract Participation means the percentage shown on Exhibit A for allocating Unitized Substances and Unit Expenses to a Tract under this agreement.

2.12 Unit Participation of each Working Interest Owner means the sum of the percentages obtained by multiplying the Working Interest of such Working Interest Owner in each Tract by the Tract Participation of such Tract.

2.13 Outside Substances means all substances obtained from any source other than the Unitized Formation, and which are injected into the Unitized Formation.

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

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

2.16 Unit Equipment means 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.

2.17 Unit Expense means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

2.18 Land Commissioner is defined as the Commissioner of Public Lands of the State of New Mexico.

2.19 Division is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.

2.20 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.

2.21 Secretary is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

2.22 Department is defined as the Department of the Interior of the United States of America.

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

2.24 Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE 3 EXHIBITS

3.1 Exhibits. Attached hereto are the following exhibits which are incorporated herein by reference:

3.1.1 Exhibit A & A-1, which are schedules that describe each Tract in Unit Area and show its Tract Participation.

3.1.2 Exhibit B, which is a map that shows the boundary lines of the Unit Area and the Tracts therein.

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

3.3 Exhibits Considered Correct. An exhibit shall be considered to be correct until revised as herein provided.

3.4 Correcting Errors. The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit shall be effective at 7:00 o'clock 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.

3.5 Filing Revised Exhibits. If an exhibit is revised pursuant to this agreement, Unit Operator shall certify and file the revised exhibit for record in the County or Counties in which this agreement is filed.

ARTICLE 4 CREATION AND EFFECT OF UNIT

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

4.2 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 Article 2, Section 2.2 of this Agreement.

4.3 Personal Property Excepted. All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interests therein as among Working Interest Owners are covered by the Unit Operating Agreement.

4.4 Amendment of Leases and Other Agreements. The provisions of the various leases, agreements, division and transfer orders, or other instruments covering the respective Tracts or the production therefrom are amended to the extent necessary to make them conform to the provisions of this agreement, but otherwise shall remain in effect.

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

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

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

4.8 Development Obligation. Nothing herein shall relieve Working Interest Owners from the obligation to develop reasonably as a whole the lands and leases committed hereto.

4.9 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.

ARTICLE 5
PLAN OF OPERATIONS

5.1 Unit Operator. Working Interest Owners are, as of the effective date of this agreement, entering into the Unit Operating Agreement, designating Siete Oil & Gas Corporation, as Unit Operator, Unit Operator shall have the exclusive right to conduct Unit Operations. The operations shall conform to the provisions of this agreement and the Unit Operating Agreement. If there is any conflict between such agreements, this agreement shall govern.

5.2 Operating Methods. To the end that the quantity of Unitized Substances ultimately recoverable may be increased and waste prevented, upon approval of A.O. and Land Commissioner, Working Interest Owners shall with diligence and in accordance with good engineering and production practices, engage in secondary recovery operations by injecting gas, water or other fluids or combinations thereof deemed necessary or desirable to effectively and economically increase the ultimate recovery of Unitized Substances.

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

5.4 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 alternation or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alternation or modification; provided, further, that no such alternation 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.

5.5 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 address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

ARTICLE 6
TRACT PARTICIPATION

6.1 Tract Participation. The Tract Participation for each Tract as shown in Exhibit A has been computed on the basis of the following formula:

$$\text{TRACT FACTOR} = \{ (.7097) [(\% \text{ Recoverable C Sand oil}) (.4) + (\% \text{ Remaining C Sand oil}) (.35) + (\% \text{ Usable wellbores in C Sand}) (.05) + (\% \text{ Remaining C Sand gas}) (.1) + (\% \text{ Recoverable C Sand gas}) (.1)] \} + \{ (.0337) [(\% \text{ Recoverable B Sand oil}) (.4) + (\% \text{ Remaining B Sand oil}) (.35) + (\% \text{ Usable wellbores in B Sand}) (.05) + (\% \text{ Remaining B Sand gas}) (.1) + (\% \text{ Recoverable B Sand gas}) (.1)] \} + \{ (.2566) [(\% \text{ Recoverable A sand oil}) (.4) + (\% \text{ Remaining A Sand oil}) (.35) + (\% \text{ Usable wellbores in A Sand}) (.05) + (\% \text{ Remaining A Sand gas}) (.1) + (\% \text{ Recoverable A Sand gas}) (.1)] \}$$

6.2 Relative Tract Participation. If the Unit Area is enlarged or reduced, the revised Tract Participation of the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

ARTICLE 7
ALLOCATION OF UNITIZED SUBSTANCES

7.1 Allocation to Tracts. All Unitized Substances produced and saved shall be allocated to the several Tracts in accordance with the respective Tract Participation effective during the period that the Unitized Substances were produced. Payments to Royalty Interests shall be calculated on the basis of 100 percent (100%) of the proceeds of any of the Unitized Substances. The amount of Unitized Substances allocated to each Tract, regardless of whether it is more or less than the actual production of Unitized Substances from well or wells, if any, on such Tract, shall be deemed for all purposes to have been produced from such Tract.

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

7.3 Taking Unitized Substances in Kind. 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 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.

7.4 Failure to Take in Kind. If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase at prices prevailing in the area for its own account or sell to others such share; provided, that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year or shall the purchase price be less than that received by Unit Operator for its share. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

7.5 Responsibility for Royalty Settlements. 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 "A" 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.

7.6 Royalty on Outside Substances. No payments shall be due or payable to Royalty Owners on any Outside Substances.

7.6.1. If gas is the Outside Substance injected, fifty percent (50%) of any subsequently produced Unitized Substance from the Unitized Formation and sold, or used for other than Unit Operations, shall be deemed to be the Outside Substance so injected until the total volume recovered equals the total volume of the Outside Substance so injected.

7.6.2. If liquid hydrocarbons are the Outside Substances injected and the Unitized Substances subsequently produced contain such liquid hydrocarbons, as determined by Working Interest Owners by applicable tests, then commencing on the first day of the calendar month following such a determination, ten percent (10%) of all oil produced from the Unitized Formation and sold during any month, shall be deemed to be the Outside Substances so injected until the total value thereof equals total cost of the Outside Substances so injected.

ARTICLE 8 PRODUCTION AS OF THE EFFECTIVE DATE

8.1 Oil in Lease Tanks. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipeline connections, as of 7:00 o'clock a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. 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 the effective date hereof.

8.2 Overproduction. 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 overproduction has been sold or otherwise disposed of, such overproduction 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.

ARTICLE 9 USE OR LOSS OF UNITIZED SUBSTANCES

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

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

ARTICLE 10 TRACTS TO BE INCLUDED IN UNIT

10.1 Qualification of Tracts. On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts

listed in Exhibit A that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

10.1.1 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.

10.1.2 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 to which the Working Interest Owners in such Tract have executed and delivered an Indemnity Agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against a portion of all claims and demands that may be made by nonsubscribing owners of Royalty Interest in such Tract on account of the inclusion of the Tract in the Unit Area. The portion of such claims and demands covered by the indemnity shall, as to each such Tract, be the fraction thereof in which the numerator is the difference between the percentage of the Royalty Interest signed and seventy-five percent (75%) of the Royalty Interest in the Tract; and the denominator is the difference between the percentage of the Royalty Interest signed and one hundred percent (100%) of the Royalty Interest in the Tract.

10.1.3 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; and Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this agreement, or the indemnity with reference to the claims of nonsubscribing owners of Royalty Interest on such Tract as given under the provisions of Section 10.1.2; and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an Indemnity Agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands 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 in the Unit Area, and as to which (b) eighty-five percent (85%) of the combined voting interest of the Working Interest Owners in all Tracts that meet the requirements of Sections 10.1.1 and 10.1.2 have voted in favor of the inclusion of such Tract and to accept the Indemnity Agreement. For the purposes of this Section 10.1.3, the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Unit Participation attributable to Tracts that qualify under Sections 10.1.1 and 10.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 10.1.1 and 10.1.2.

10.1.4 Each tract, regardless of the percentage of Working Interest or Royalty Interest therein that has been committed hereto, and as to which (a) the Working Interest Owner who operates the Tract has become a party to this agreement, and (b) Working Interest Owners having eighty-five percent (85%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Sections 10.1.1, 10.1.2, or 10.1.3 vote in favor of the inclusion of such Tract. For the purpose of this Section 10.1.4, the voting interest of a Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Unit Participation attributable to Tracts that qualify under Sections 10.1.1, 10.1.2, or 10.1.3 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 10.1.1, 10.1.2, or 10.1.3.

10.2 Subsequent Commitment of Interest to Unit. After the effective date of this agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest.

10.3 Revision of Exhibits. 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

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 "A" 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.

7.6 Royalty on Outside Substances. No payments shall be due or payable to Royalty Owners on any Outside Substances.

7.6.1. If gas is the Outside Substance injected, fifty percent (50%) of any subsequently produced Unitized Substance from the Unitized Formation and sold, or used for other than Unit Operations, shall be deemed to be the Outside Substance so injected until the total volume recovered equals the total volume of the Outside Substance so injected.

7.6.2. If liquid hydrocarbons are the Outside Substances injected and the Unitized Substances subsequently produced contain such liquid hydrocarbons, as determined by Working Interest Owners by applicable tests, then commencing on the first day of the calendar month following such a determination, ten percent (10%) of all oil produced from the Unitized Formation and sold during any month, shall be deemed to be the Outside Substances so injected until the total value thereof equals total cost of the Outside Substances so injected.

ARTICLE 8 PRODUCTION AS OF THE EFFECTIVE DATE

8.1 Oil in Lease Tanks. Unit Operator shall gauge all lease and other tanks within the Unit Area to ascertain the amount of merchantable oil produced from the Unitized Formation in such tanks, above the pipeline connections, as of 7:00 o'clock a.m. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall remain the property of the parties entitled thereto the same as if the Unit had not been formed. Any such oil not promptly removed may be sold by the Unit Operator for the account of the parties entitled thereto, subject to the payment of all royalties, overriding royalties, production payments, and all other payments under the provisions of the applicable lease or other contracts. 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 the effective date hereof.

8.2 Overproduction. 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 overproduction has been sold or otherwise disposed of, such overproduction 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.

ARTICLE 9 USE OR LOSS OF UNITIZED SUBSTANCES

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

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

ARTICLE 10 TRACTS TO BE INCLUDED IN UNIT

10.1 Qualification of Tracts. On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts

listed in Exhibit A that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

10.1.1 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.

10.1.2 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 to which the Working Interest Owners in such Tract have executed and delivered an Indemnity Agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against a portion of all claims and demands that may be made by nonsubscribing owners of Royalty Interest in such Tract on account of the inclusion of the Tract in the Unit Area. The portion of such claims and demands covered by the indemnity shall, as to each such Tract, be the fraction thereof in which the numerator is the difference between the percentage of the Royalty Interest signed and seventy-five percent (75%) of the Royalty Interest in the Tract; and the denominator is the difference between the percentage of the Royalty Interest signed and one hundred percent (100%) of the Royalty Interest in the Tract.

10.1.3 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; and Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this agreement, or the indemnity with reference to the claims of nonsubscribing owners of Royalty Interest on such Tract as given under the provisions of Section 10.1.2; and as to which (a) the Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this agreement have joined in a request for inclusion of such Tract in the Unit Area, and have executed and delivered an Indemnity Agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands 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 in the Unit Area, and as to which (b) eighty-five percent (85%) of the combined voting interest of the Working Interest Owners in all Tracts that meet the requirements of Sections 10.1.1 and 10.1.2 have voted in favor of the inclusion of such Tract and to accept the Indemnity Agreement. For the purposes of this Section 10.1.3, the voting interest of each Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Unit Participation attributable to Tracts that qualify under Sections 10.1.1 and 10.1.2 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 10.1.1 and 10.1.2.

10.1.4 Each tract, regardless of the percentage of Working Interest or Royalty Interest therein that has been committed hereto, and as to which (a) the Working Interest Owner who operates the Tract has become a party to this agreement, and (b) Working Interest Owners having eighty-five percent (85%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Sections 10.1.1, 10.1.2, or 10.1.3 vote in favor of the inclusion of such Tract. For the purpose of this Section 10.1.4, the voting interest of a Working Interest Owner shall be equal to the ratio (expressed in percentage) that its Unit Participation attributable to Tracts that qualify under Sections 10.1.1, 10.1.2, or 10.1.3 bears to the total Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under Sections 10.1.1, 10.1.2, or 10.1.3.

10.2 Subsequent Commitment of Interest to Unit. After the effective date of this agreement, the commitment of any interest in any Tract within the Unit Area shall be upon such terms as may be negotiated by Working Interest Owners and the owner of such interest.

10.3 Revision of Exhibits. 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 a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule 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 formula set forth in Article 6 (Tract Participation) above. This schedule of participation shall be revised Exhibit "A" 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 a new schedule is approved by the Land Commissioner and A.O.

ARTICLE 11 FAILURE OF TITLES

11.1 Removal of Tract from Unit Area. If a Tract ceases to have sufficient Working Interest Owners or Royalty Owners committed to this agreement to meet the conditions of Article 9 because of failure of title of any party hereto, such Tract shall be removed from the Unit Area as of the first day of the calendar month in which the failure of title is finally determined; however, the Tract shall not be removed from the Unit Area if, within ninety (90) days of the date of final determination of the failure of title, the Tract requalifies under a section of Article 9.

11.2 Revision of Exhibits. If a Tract is removed from the Unit Area because of the failure of title, Unit Operator shall recompute the Tract Participation of each of the Tracts remaining in the Unit Area and shall revise Exhibits A, A-1, and B accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

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

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

11.5 Production Where Title is in Dispute. 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 discretion 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 judgment 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.

ARTICLE 12 EASEMENTS OR USE OF SURFACE

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

ARTICLE 13 EXPANSION

13.1 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:

13.1.1 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.

13.1.2 Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner 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 at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(a) 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

(b) 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

(c) File, upon the expiration of said thirty (30) day period as set out in (b) immediately above with the Land Commissioner and A.O. the following: (1) evidence of mailing or delivering copies of said notice of expansion; (2) an application for approval of such expansion; (3) an instrument containing the appropriate joinders in compliance with the participation requirements of Article 10, and Section 10.1.3, infra; and (4) 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.

ARTICLE 14 CHANGE OF TITLE

14.1 Covenant Running With the Land. This agreement shall extend to, be binding upon, and inure to the benefit of, the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

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

14.3 Waiver of Rights to Partition. Each party hereto covenants that, during the existence of this agreement, it will not resort to any action to partition the Unit Area or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 15
RELATIONSHIP OF PARTIES

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

15.2 No Sharing of Market. This agreement is not intended to provide, and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale, or marketing of Unitized Substances.

15.3 Royalty Owners Free of Costs. This agreement is not intended to impose, and shall not be construed to impose, upon any Royalty Owner any obligation to pay for Unit Expense unless such Royalty Owner is otherwise obligated.

15.4 Information to Royalty Owners. Each Royalty Owner shall be entitled to all information in possession of Unit Operator to which such Royalty Owner is entitled by an existing agreement with any Working Interest Owner.

15.5 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 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.

ARTICLE 16
LAWS AND REGULATIONS

16.1 Laws and Regulations. This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and to all other applicable federal, state, and municipal laws, rules, regulations, and orders.

ARTICLE 17
CONSERVATION

17.1 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.

ARTICLE 18
DRAINAGE

18.1 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.

ARTICLE 19
FORCE MAJEURE

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

ARTICLE 20
EFFECTIVE DATE

20.1 Effective Date. This agreement shall become binding upon each party as of the date such party signs the instrument by which it becomes a party hereto; and, unless sooner terminated as provided in Article 21, shall become effective as to qualified Tracts at the time and date as determined by the Working Interest Owners in all the qualified Tracts, and set forth in a certificate filed for record by Unit Operator in Eddy County, New Mexico. The certificate shall also recite the percentage of the Unit Area represented by the Tracts qualified under Article 9, the book and page in which a counterpart of this agreement has been recorded, and the case number and order number of the order of approval by governmental authority, if obtained. The certificate shall not be filed until after the following requirements have been met:

20.1.1 Tracts comprising eighty-five percent (85%) or more of the Unit Area as shown of the original Exhibit B have qualified under the provisions of Article 10.

20.1.2 At least one counterpart of this agreement has been filed for record by Unit Operator in Eddy County, New Mexico.

20.2 Ipso Facto Termination. If the requirements of Article 20 are not accomplished on or before January 1, 1993, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto three or more Working Interest Owners owning a combined Unit Participation of at Least seventy-five percent (75%) have become parties to this agreement and have decided to extend the termination date for a period not to exceed one year. If the termination date is so extended and the requirements of Article 20 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this section, Participation shall be as shown on the original Exhibit A attached to the Unit Operating Agreement.

ARTICLE 21
TERM

21.1 Term. The term of this agreement shall be for so long as Unitized Substances are produced in paying quantities and as long thereafter as Unit Operations are conducted without a cessation of more than ninety (90) consecutive days, unless sooner terminated by Working Interest Owners in the manner herein provided.

21.2 Termination by Working Interest Owners. This agreement may be terminated by Working Interest Owners having a combined participation of at least eighty-five percent (85%) whenever such Working Interest Owners determine that Unit Operations are not longer profitable or feasible.

21.3 Effect of Termination. Upon termination of this agreement, the further development and operation of the Unitized Formation as a unit shall be abandoned, Unit Operations shall cease, and thereafter the parties shall be governed by the provisions of the leases and other instruments affecting the separate Tracts.

21.4 Salvaging Equipment Upon Termination. If not otherwise granted by the leases or other instruments affecting each Tract unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after the date of termination of this agreement within which to salvage and remove Unit Equipment.

ARTICLE 22
EXECUTION

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

22.2 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 that may be owned or controlled by such party.

SANTA FE ENERGY RESOURCES CORPORATION

Date

Title
550 West Texas, Suite 1330
Midland, TX 79701

STATE OF TEXAS)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by _____, _____ President of Santa Fe Energy Resources Corporation, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

Date

Gene Shumate
3002 Diamond A
Roswell, NM 88201

Date

Carol Shumate
3002 Diamond A
Roswell, NM 88201

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Gene Shumate and Carol Shumate, his wife.

My Commission Expires:

Notary Public

Date

Mary Soldow
P. O. Box 1627
Santa Fe, NM 87504-1627

STATE OF NEW MEXICO)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Mary Soldow, a single woman.

My Commission Expires:

Notary Public

SOUTHLAND ROYALTY COMPANY

Date

STATE OF TEXAS)
) ss.
COUNTY OF _____)

Title
P. O. Box 51810
Midland, TX 79710

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by _____, _____ President of Southland Royalty Company on behalf of said company.

My Commission Expires:

Notary Public

STRATA PRODUCTION COMPANY

Date

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

Title
648 Petroleum Building
Roswell, NM 88201

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by _____, _____ President of Strata Production Company on behalf of said company.

My Commission Expires:

Notary Public

Date

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

Francis G. Tracy III
P. O. Box 868
Carlsbad, NM 88221

Date

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

Carol Tracy
P. O. Box 868
Carlsbad, NM 88221

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Francis G. Tracy III and Carol Tracy, his wife.

My Commission Expires:

Notary Public

Date

Billy G. Underwood, Jr.
1000 Louisiana, Suite 6770
Houston, TX 77002

Date

Margaret Underwood
1000 Louisiana, Suite 6770
Houston, TX 77004

STATE OF TEXAS)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Billy G. Underwood, Jr. and Margaret Underwood, his wife.

My Commission Expires:

Notary Public

Date

Charles Worrell
P. O. Box 5608
Roswell, NM 88202

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this ____ day of _____, 1992 by Charles Worrell, a single man.

My Commission Expires:

Notary Public

EXHIBIT A-1

- Tract 1 SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 27, T-19-S, R-29-E
Containing Halcon State #2
- Tract 2 N $\frac{1}{2}$ N $\frac{1}{2}$ of Section 35, T-19-S, R-29-E
Containing Apache A-1, A-2, A-3 & A-4
- Tract 3 SW $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Renegade 2 & 3
- Tract 4 SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Renegade 1
- Tract 5 N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Osage 1, 2, 3, 4 & 5
- Tract 6 NW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 2, T-20-S, R-29-E
Containing Flathead 1
- Tract 7 SE $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Apache 1 & 2
- Tract 8 SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 35, T-19-S, R-29-E
Containing Longknife 1
- Tract 9 W $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-6 & 36-7
- Tract 10 W $\frac{1}{2}$ SW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-2, 36-3 & 36-4
- Tract 11 SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 36, T-19-S, R-29-E
Containing Parkway State 36-1

OPERATORS WITHIN THE WATERFLOOD PROJECT AND OFFSET
OPERATORS WITHIN ONE-HALF MILE OF INJECTION WELLS

Meridian Oil, Inc.
P. O. Box 51810
Midland, Texas 79710-1810
Attn: Mo Gaddis

Yates Petroleum
Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Ray Westall
P. O. Box 4
Loco Hills, NM 88255

Collins & Ware
303 West Wall Avenue
Suite 2200
Midland, Texas 79701

UMC Petroleum
1201 Louisiana, Suite 1400
Houston, TX 77002
Attn: Brian Baer

Fortson Oil Company
301 Commerce St, Ste.3301
Fort Worth, TX 76102
Attn: Jack Evecker

Strata Production Company
700 Petroleum Building
Roswell, NM 88201
Attn: George L. Scott

Presidio Oil Company
P. O. Box 6525
Englewood, Colorado 80155-6525
Attn: Marshall Munsell, Land Manager

Santa Fe Energy Resources, Inc.
550 W. Texas Ave., Suite 1330
Midland, Texas 79701
Attn: Randy Offenberger

Chevron, Inc.
P. O. Box 1150
Midland, Texas 79702
Attn: Larry La Fleur

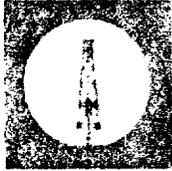
Conoco, Inc.
10 Desta Drive, Suite 100 W.
Midland, Texas 79705-4500
Attn: Peggy Sutko

Eastland Oil Company, Inc.
Drawer 3488
Midland, Texas 79702
Attn: Travis Reed

SURFACE OWNERS:

Department of the Interior
Bureau of Land Management
Post Office Box 1397
Roswell, New Mexico 88201-1397

Commissioner of Public Lands
State of New Mexico
Post Office Box 1148
Santa Fe, New Mexico 87504-1148



SIETE OIL & GAS CORPORATION

*Petroleum Building Suite 200
P.O. Box 2523 Roswell, New Mexico 88202, USA
Telephone (505) 622-2202
FAX (505) 622-2297*

July 28, 1992

**RE: Parkway Delaware Waterflood
AFE's and Unit Agreements**

Dear Working Interest Owner:

Siete Oil and Gas proposes initiating a waterflood in the Parkway Delaware Field. This project is expected to cost \$3,365,015 and will recover 4,525,000 barrels. If this project meets your approval please sign and return a copy of the attached AFE's and Unit Agreements signature page.

ENGINEERING DISCUSSION

A reservoir engineering study of the Parkway Delaware Field has been performed to determine the feasibility of a waterflood project. The field, located in Eddy County, New Mexico, is approximately 15 miles northeast of Carlsbad. The Field was discovered in August, 1988 with the completion of the Osage Federal #1 well. There are three distinct reservoir sands in the field which have been named as follows: Sand A, Sand B and Sand C. These sand bodies can be seen in the attached Cross-Section, Attachment #1.

The A, B, and C sands were analyzed in detail. The C Sand is more continuous throughout the field, has better permeability-thickness and contains the majority of the oil in place. Therefore a detailed reservoir study was undertaken to determine the feasibility of a waterflood project in the C Sand reservoir. A black oil simulation model was used for this study.

The Delaware Sand is an anticline structure bounded on all sides by a low permeability water transition zone. The reservoir is a combination structural-stratigraphic trap.

There are currently twenty-three producing wells in the field. Sixteen of these wells are producing from the C Sand, nine from the B Sand and five from the A Sand. Some wells produce from 2 or 3 of the sands. Cumulative oil production from the field as of March 1, 1992 is 1,188,698 STB. The estimated cumulative production is 958,808 STB from the C Sand, 144,674 STB from the B Sand and 85,216 STB from the A Sand. A graph of the field performance is shown on

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
SIETE OIL & GAS CORP. EXHIBIT NO. 2
CASE NO. 10618 and 10619

Attachment #2.

The production and pressure performance indicates the drive mechanism in all the sands is solution gas drive. The initial pressure and estimated current pressure in the C Sand is 1835 psia and 1487 psia, respectively. The C Sand producing gas-oil-ratio has increased from an initial GOR of 480 SCF/STB to the current GOR of 2800 SCF/STB.

The A Sand initial pressure is 1743 psia with an estimated current pressure of 1241 psia. The producing GOR has increased from the initial 465 SCF/STB to the current GOR of 2100 SCF/STB.

The B Sand estimated initial pressure is 1772 psia. The producing GOR has increased from the initial 470 SCF/STB to the current GOR of 2500 SCF/STB.

Individual well performance and geologic interpretation were used to determine the C Sand has three distinct sand bodies separated by minor dolomitic shales. The C Sand was therefore subdivided into three sands, the C1, C2, and C3 Sands in order to better simulate past and future performance.

The initial reservoir pressure in the C Sand is 1838 psia and the reservoir is saturated at initial conditions with a very small initial gas cap. There is no initial gas cap in the A and B Sands. The results of the reservoir characterization indicate the C Sand behaves like a layered reservoir with limited vertical flow between layers. Due to fracture stimulation, there is good vertical communication around the wellbore.

The initial oil-in-place is 31,250,000 STB from the simulation characterization work of the C Sand. The primary recoverable oil is 2,686,000 STB or 8.6% of the initial oil-in-place. The maximum recoverable oil is 7,211,000 STB as a result of waterflooding on a 5-spot pattern from the current perforated intervals.

Thickness and porosity were computed from a detailed well-log analysis of all the wells in the field. The relative permeability end-points and capillary pressure data were obtained from the Longknife Federal 35 #1 special core analysis study performed by Core Laboratories. A correlation was established between core permeability and well-log porosity in the A, B, and C Sands. These correlations were used to determine individual well permeability in the A, B, C1, C2, and C3 Sand reservoirs. The calculated permeabilities were compared to results of pressure build-up analysis for consistency. The pressure data were obtained from build-up analysis and from static pressure tests. The Osage Federal #2 laboratory PVT data was used to develop the hydrocarbon fluid properties used in this study.

The estimated initial oil-in-place in the A Sand is 11,428,000 STB and the B Sand oil-in-place is 27,919,600 STB.

CONCLUSIONS

The following conclusions are based on the data analysis of the A and B Sands and the detailed reservoir engineering analysis of the C Sand.

1. An increase in ultimate oil recovery can be expected if the field is waterflooded.
2. Estimated primary recovery is 2,686,000 STB or 8.6% of the initial oil-in-place.
3. A waterflood on a 5-spot pattern with infill drilling will result in the maximum ultimate recovery.
4. The initial oil-in-place in the C Sand is 31,250,000 STB and 16,211,100 MCF of gas.
5. An incremental recovery of 4,525,000 STB can be realized by waterflood from the C Sand, if nine wells are drilled as injectors.
6. The ultimate recovery can be increased if the reservoir is produced to a 95% water-cut. The waterflood run was terminated at year 2016. The predicted water-cut at that time was 90%.
7. The estimated initial oil-in-place in the A Sand is 11,428,000 STB and the B Sand oil-in-place is 27,919,600 STB.
8. The reservoir drive mechanism for Sand A, B and C is solution gas drive.
9. The C Sand has three distinct sand bodies, each separated by non-permeable dolomitic shale which impedes vertical flow in the reservoir; however the sands are in pressure communication.
10. As a result of fracture stimulation, there is good vertical flow between the sands in the vicinity of the wellbore.

RECOMMENDATIONS

1. A waterflood pilot project should be undertaken in the better part of the reservoir. Based on the results of the pilot, the waterflood should be expanded to the entire reservoir.
2. Pressure build-up surveys should continue every 6 months. In addition, TDT logs should be run on some

of the wells prior to the start of waterflooding and as the project progresses. This will be useful in monitoring the flood performance and in the determination of unswept regions for possible infill drilling of producing wells.

3. At the start of injection, the water injection rate should be kept at or above 110% of the reservoir voidage in order to increase reservoir pressure and reduce gas saturation. After fill-up, the injection rate should be kept between 100% and 110% of total reservoir voidage so oil will not be bypassed due to high injection rates.
4. Step rate tests should be performed on each injection well and water injection should occur below the formation parting pressure. This will determine the final rates of injection.

UNITIZATION DISCUSSION

It is proposed the following parameters make up the corresponding percentage of the Unit:

1. Recoverable oil reserves	40%
2. Remaining oil reserves	35%
3. Usable wellbores	5%
4. Recoverable gas reserves	10%
5. Remaining gas reserves	10%

Each sand is also considered to have different percentages of the unit. The percent each sand contributes to the unit is based on its recoverable oil reserves and is as follows:

A Sand	1,051,585 BBL.	25.66%
B Sand	137,938 BBL.	3.37%
C Sand	2,908,659 BBL.	70.97%

The proposed unit is divided into 11 tracts, Attachment #3, based on common working and revenue interests. The study allocated the parameters for each sand to each tract. These allocations determine the percent of the unit each tract comprises. To calculate a tracts participation factor, the parameters for each sand, attributable to the tract, is multiplied by the sand participation factor. The Tract Participation Formula is shown on Attachment #4.

The various parameters for each sand are based on the extensive study Platt, Sparks and Associates performed. The unit parameters are listed below for each sand.

	<u>A SAND</u>	<u>B SAND</u>	<u>C SAND</u>
Recoverable oil	1,051,595 BBL.	137,938 BBL	2,908,659 BBL.
Remaining oil	963,598 BBL.	9,625 BBL.	2,004,349 BBL.
Usable wellbores	22	22	22
Recoverable gas	4,203,778 MCF	550,761 MCF	11,768,123 MCF
Remaining gas	4,045,989 MCF	273,643 MCF	10,228,157 MCF

These parameters are broken down by tract on Attachment #5a-5c. Attachment #6 also shows the percent of the unit each tract earns. Attachment #7 is a list of all the Unit Working Interest Owners and their proposed Unit Working Interest.

ECONOMICS

This project is expected to cost \$3,365,015 and recover an additional 4,525,000 BBL of reserves. Attachment #8 shows the incremental waterflood production. The capital will be split into Phase 1 and Phase 2 expenditures. Phase 1, costing \$1,154,225, is to be implemented as soon as all necessary approvals are received. This will consist of building the waterflood facilities, converting 5 wells and drilling 2 injection wells. This will constitute the pilot project. The Phase 1 AFE is Attachment #9.

Phase 2 will cost \$2,163,000. Once response is seen the additional wells will be drilled in 1993. The future well locations may change based on the results seen from the pilot. The Phase 2 AFE is Attachment #10. An AFE for a typical injection well is enclosed. This does not need to be signed because the total drilling costs are included in the Phase 1 & 2 AFE's. Attachment #11 is a map showing the proposed conversions Phase 1 injectors and Phase 2 injectors.

Attachment #12 shows the economics for this project. The flood will generate \$62,480,348 in future net revenue. This is a payout multiple of over 18. The flood has a value discounted at 10% of \$20,570,072. The project will payout in 3.5 years and generate a rate of return of 48%.

UPSIDE

The economics do not reflect the waterflood potential of the

A or B Sands. These sands will be opened and flooded later in the life of the C Sand flood. This allows time to fully analyze the benefits to the C Sand and will be more efficient operationally. The capital required will be minimal. We will only need to open up the A and B Sands in the wells with these zones present. Potential reserves for these horizons is 1,850,000 BBL.

Please sign the return copies of the attached AFE's and the Unit Agreements. Your prompt attention to this proposal is greatly appreciated. If you have any questions please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Robert Lee". The signature is written in dark ink and is positioned above the typed name.

Robert Lee
Production Manager

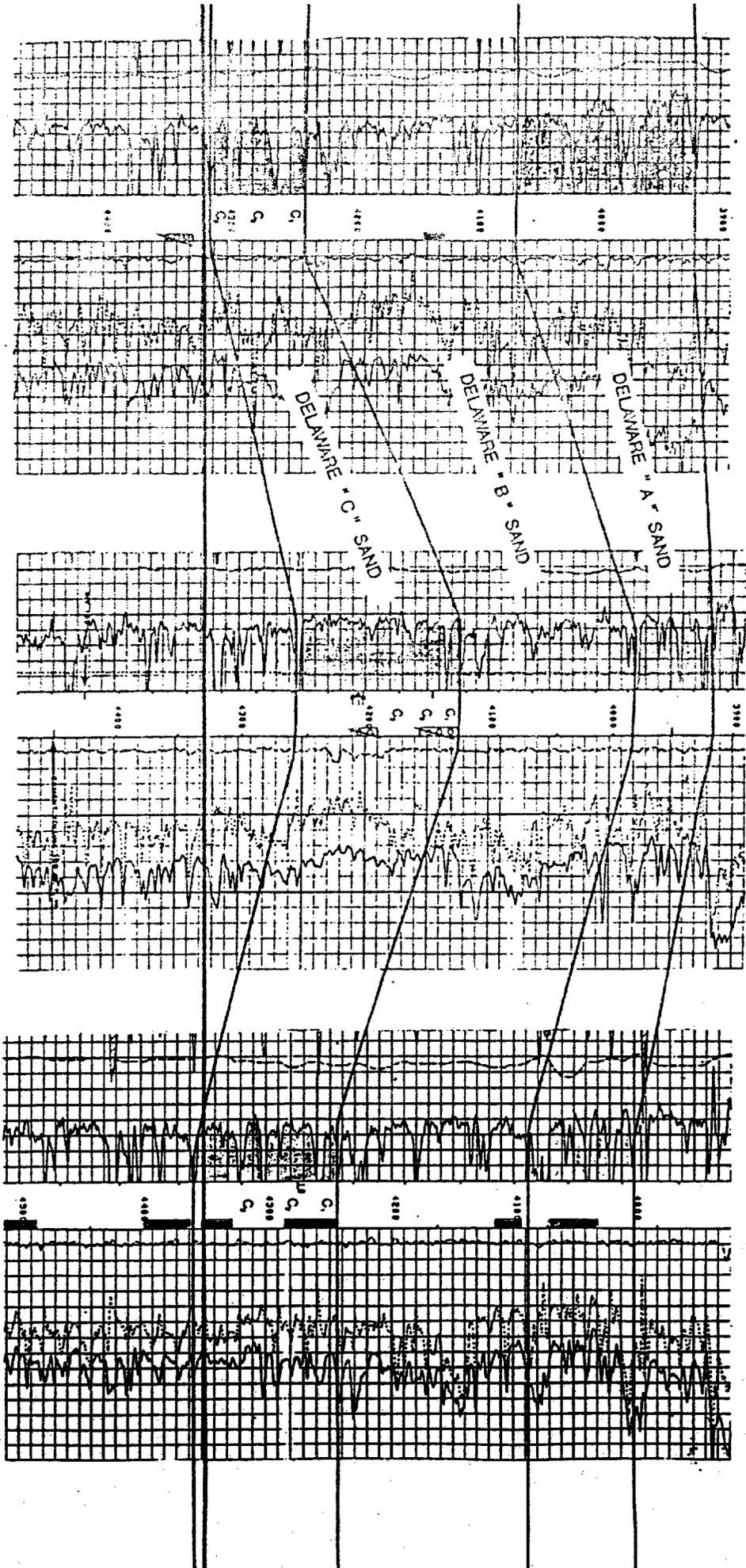
WEST

EAST

SIETE OIL AND GAS CORP.
#3 RENEGADE FEDERAL

SIETE OIL AND GAS CORP.
#2 RENEGADE FEDERAL

SANTA FE ENERGY
#6 PARKWAY 36 STATE



PERFS: 4127' - 4142' • B • SAND

3 SLOTS: 4203' - 12' • C • SAND

OLD PERFS: 4241' - 4512' • C • SAND

NEW PERFS: 4083' - 4115' • B • SAND

4029' - 4089' • A • SAND

-100 DATU

ATTACHMENT 1

WEST - EAST STRUCTURAL CROSS-SECTION

PARKWAY (DELAWARE) FIELD

EDDY COUNTY, NEW MEXICO

SCALE: NONE

GEOLOGY BY: M. G. CLEMENSON 1 / 92

Lesse: PARKWAY WATERFLOOD

Projected Waterflood (C Sand Only)
Open All C Sand Zones

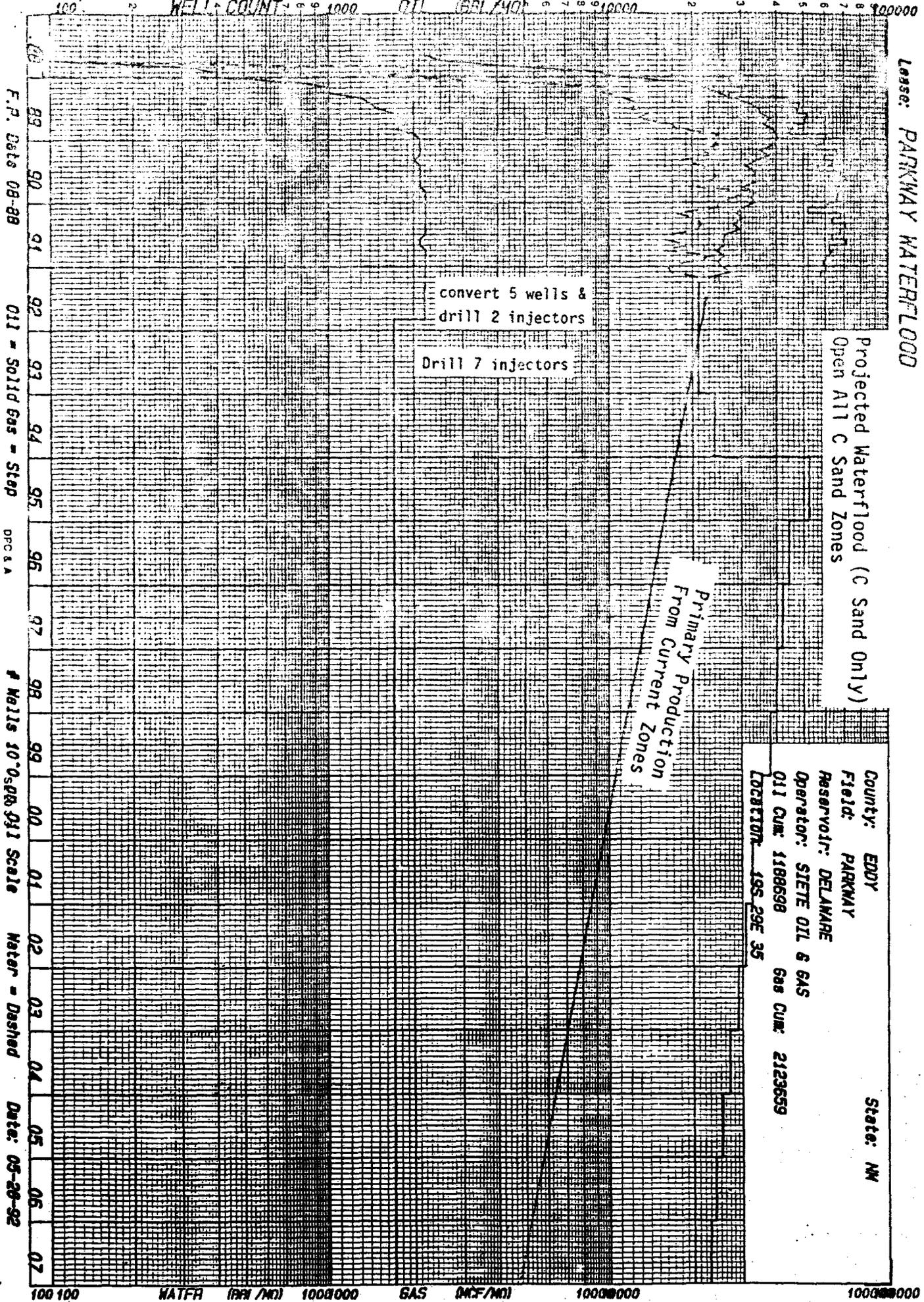
County: EDDY
Field: PARKWAY
Reservoir: DELAWARE
Operator: STEE OIL & GAS
Oil Cum: 1188698 Gas Cum: 2123659
Location: 19S 29E 35

State: NW

Primary Production
From Current Zones

convert 5 wells &
drill 2 injectors

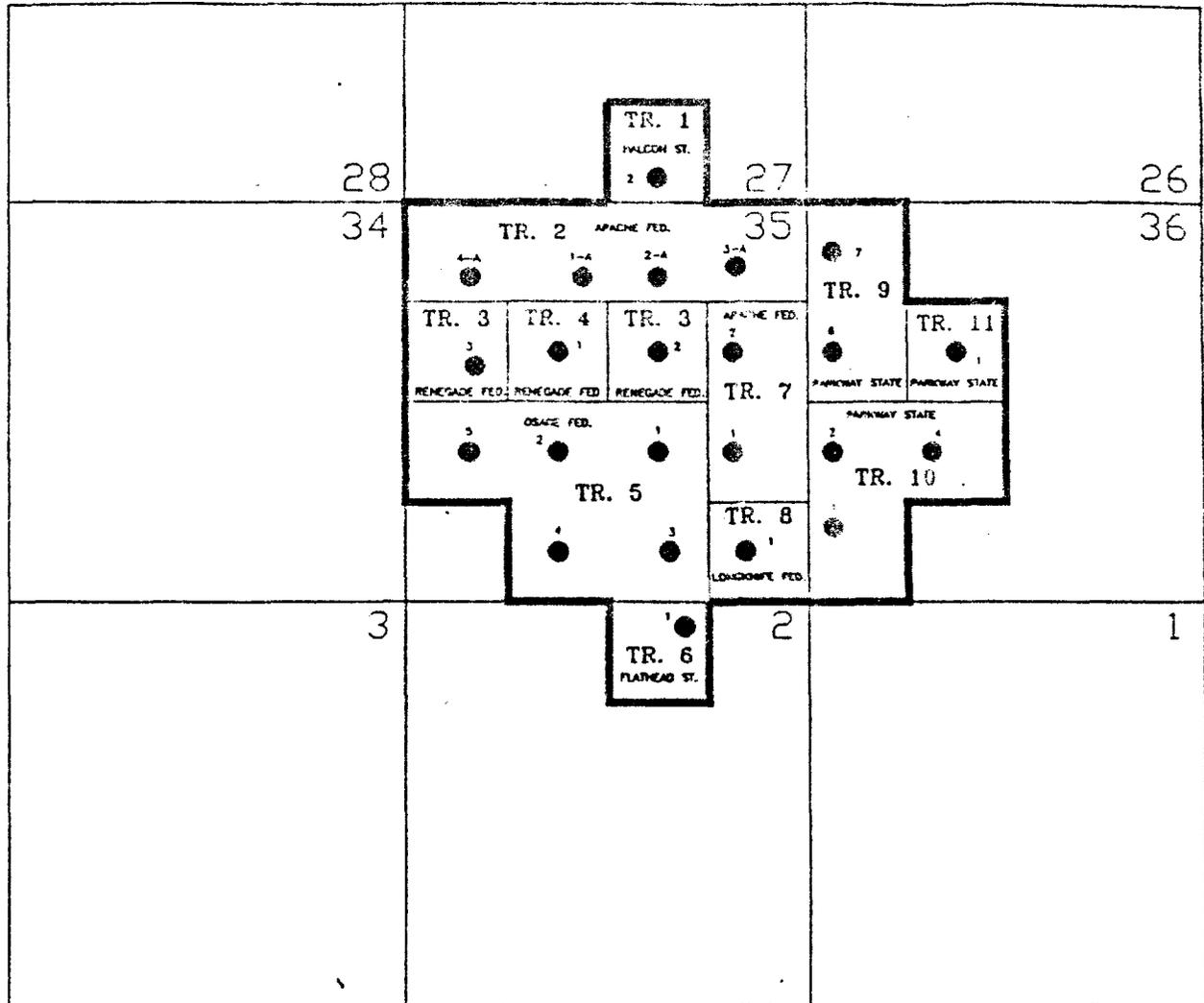
Drill 7 injectors



F.P. Date 08-88
011 = Solid Gas = Step
DPC & A
Wells 10'0s08 091 Scale
Water = Dashed
Date: 05-28-92

100 100 WATER (BBL/MO) 1000000 GAS (MCF/MO) 10000000

Township 19 South, Range 29 East



Township 20 South, Range 29 East



SIETE OIL & GAS CORPORATION

EDDY COUNTY, NEW MEXICO

PARKWAY FIELD

— PROPOSED WATERFLOOD —

TRACT PARTICIPATION FORMULA

TRACT FACTOR={(.7097)[(% Recoverable C Sand oil)(.4)+(% Remaining C Sand oil)(.35)+(% Usable wellbores in C Sand)(.05)+(% Remaining C Sand gas)(.1)+(% Recoverable C Sand gas)(.1)]} + {(.0337)[(% Recoverable B Sand oil)(.4)+(% Remaining B Sand oil)(.35)+(% Usable wellbores in B Sand)(.05)+(% Remaining B Sand gas)(.1)+(% Recoverable B sand gas)(.1)]} + {(.2566)[(% Recoverable A sand oil)(.4)+(% Remaining A sand oil)(.35)+(% Usable wellbores in A Sand)(.05)+(% Remaining A sand gas)(.1)+(% Recoverable A sand gas)(.1)]}

PARKWAY WATERFLOOD UNIT PARAMETERS

TRACT	*A SAID - 25.66% OF TOTAL		PARTICIP. FACTOR	REMAINING OIL MSIB	PERCENT OF REM. OIL	PARTICIP. FACTOR	USABLE WELLS	PERCENT OF TOTAL WELLS	PARTICIP. FACTOR	REM. GAS MMCF	PERCENT OF TOTAL	PARTICIP. FACTOR	RECOV. GAS MMCF	PERCENT OF TOTAL GAS	PARTICIP. FACTOR	UNIT INTEREST
	RECOV. OIL MSIB	PERCENT OF RECOV. OIL														
1	0.000	0.0000	0.0000	0.000	0.0000	0.0000	1	4.5455	0.2273	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0.0583
2	435.735	41.4300	16.5744	362.926	37.6636	13.1623	4	18.1818	0.9091	1607.072	39.7201	3.9720	1742.940	41.4613	4.1461	9.9520
3	201.399	19.1515	7.6109	201.399	20.9007	7.3153	2	9.0909	0.4545	805.596	19.9110	1.9911	805.596	19.1636	1.9164	4.9621
4	9.606	0.9138	0.3655	6.487	0.6732	0.2356	1	4.5455	0.2273	32.742	0.8092	0.0809	36.436	0.9143	0.0914	0.2568
5	204.000	19.3993	7.7597	204.000	21.1707	7.4097	5	22.7273	1.1364	816.000	20.1681	2.0168	816.000	19.4111	1.9411	5.1997
6	0.000	0.0000	0.0000	0.000	0.0000	0.0000	1	4.5455	0.2273	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0.0583
7	151.804	15.0781	6.0312	151.804	16.0652	5.6228	2	9.0909	0.4545	630.408	15.5811	1.5581	634.236	15.0873	1.5087	3.8940
8	0.000	0.0000	0.0000	0.000	0.0000	0.0000	1	4.5455	0.2273	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0.0583
9	41.167	3.9148	1.5059	33.982	3.5266	1.2343	2	9.0909	0.4545	154.171	3.8105	0.3810	164.668	3.9171	0.3917	1.0335
10	1.116	0.1061	0.0425	0.000	0.0000	0.0000	3	13.6364	0.6818	0.000	0.0000	0.0000	1.902	0.0452	0.0045	0.1870
11	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0	0.0000	0.0000	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0.0000
TOTALS	1051.585	100.0000	40.0000	963.598	100.0000	35.0000	22.000	100.0000	5.0000	4045.989	100.0000	10.0000	4203.778	100.0000	10.0000	25.6600

PARKING

PARKWAY WATERFLOOD UNIT PARAMETERS

TRACT	8" SAND - 3.3% OF TOTAL		PARTICIP. FACTOR		REMAINING OIL		PERCENT OF REM. OIL		PARTICIP. FACTOR		USABLE WELLS		PERCENT OF TOTAL WELLS		PARTICIP. FACTOR		REM. GAS MMCF		PERCENT OF TOTAL		PARTICIP. FACTOR		RECOV. GAS MMCF		PERCENT OF TOTAL GAS		PARTICIP. FACTOR		UNIT INTEREST	
	RECOV. OIL	PERCENT OF RECOV. OIL	0.4	0.4	MSIB	MSIB	OIL	OIL	0.35	0.35	WELLS	WELLS	WELLS	WELLS	0.05	0.05	MMCF	MMCF	TOTAL	TOTAL	0.1	0.1	MMCF	MMCF	GAS	GAS	0.1	0.1	0.0000	0.0000
1	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	1	1	4.5455	0.2273	0.2273	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0077
2	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	4	4	18.1818	0.9091	0.9091	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0306	
3	63.501	46.0359	18.4144	12.9870	1.250	6.756	12.9870	4.5455	4.5455	2	2	9.0909	0.4545	0.4545	127.888	34.178	46.7353	4.6735	254.004	46.1187	4.6119	1.1020	40.048	46.1187	4.6119	1.1020	1.1020	1.1020		
4	10.012	7.2583	2.9033	70.6078	0.088	0.088	0.9144	24.7127	0.3200	1	1	4.5455	0.2273	0.2273	80.041	34.178	12.4900	1.2490	40.048	7.2714	0.7271	1.0049	223.717	40.6186	4.0620	0.7271	1.0049	0.8335		
5	56.177	40.7263	16.2503	0.088	0.088	0.088	0.9144	0.3200	0.3200	5	5	22.7273	1.1364	1.1364	80.041	34.178	29.2502	2.9250	223.717	40.6186	4.0620	0.8335	31.536	5.7259	0.5726	0.3256	0.3256			
6	7.881	5.7156	2.2862	15.4909	1.491	1.491	0.0000	5.4218	0.0000	1	1	4.5455	0.2273	0.2273	31.536	31.536	11.5245	1.1525	31.536	5.7259	0.5726	0.3256	0.000	0.0000	0.0000	0.0153	0.0153			
7	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	2	2	9.0909	0.4545	0.4545	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.000	0.0000	0.0000	0.0000	0.0000	0.0077		
8	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	1	1	4.5455	0.2273	0.2273	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.000	0.0000	0.0000	0.0000	0.0000	0.0077		
9	0.354	0.2639	0.1036	0.0000	0.000	0.000	0.0000	0.0000	0.0000	2	2	9.0909	0.4545	0.4545	0.000	0.000	0.0000	0.0000	1.456	0.2644	0.0264	0.0198	1.456	0.2644	0.0264	0.0198	0.0198	0.0198		
10	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	3	3	13.6364	0.6818	0.6818	0.000	0.000	0.0000	0.0000	0.000	0.0000	0.0000	0.0000	0.000	0.0000	0.0000	0.0000	0.0000	0.0230		
11	0.000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0	0	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000	0.000	0.000	0.0000	0.0000	0.0000	0.0000	0.0000		
TOTALS	137.938	100.0000	40.0000	100.0000	9.625	100.0000	0.0000	35.0000	22.000	100.0000	5.0000	273.643	100.0000	10.0000	550.761	100.0000	10.0000	10.0000	10.0000	10.0000	10.0000	3.3700	3.3700	100.0000	10.0000	10.0000	3.3700	3.3700		

PARKWAY WATERFLOOD UNIT PARAMETERS

TRACT	RECOV. OF TOTAL OIL		PARTICIP. FACTOR 0.4	REMAINING OIL		PARTICIP. FACTOR 0.35	USABLE WELLS	PERCENT OF TOTAL WELLS	PARTICIP. FACTOR 0.05	REM. GAS MMCF	PERCENT OF TOTAL	PARTICIP. FACTOR 0.1	RECOV. OF TOTAL GAS		PARTICIP. FACTOR 0.1	UNIT INTEREST
	RECOV. OIL	PERCENT OF RECOV. OIL		OIL	MSTB								PERCENT OF REM. OIL	WELLS		
1	11.162	0.3838	0.1535	0.452	0.0226	0.0079	1	4.5455	0.2273	0.365	0.0036	0.0004	9.025	0.0767	0.0077	0.2815
2	646.773	22.2361	8.8944	472.610	23.5792	8.2527	4	18.1818	0.9091	1894.880	18.5261	1.8526	2206.239	18.7476	1.8748	15.4598
3	270.906	9.3136	3.7254	192.730	9.1167	3.1908	2	9.0909	0.4545	837.111	8.1844	0.8184	981.823	8.3431	0.8343	6.4040
4	206.944	7.1148	2.8453	124.020	6.1878	2.1657	1	4.5455	0.2273	631.550	6.1746	0.6175	761.186	6.4682	0.6468	4.6153
5	1007.468	34.6379	13.8552	656.093	32.7335	11.4567	5	22.7273	1.1364	2598.018	25.4006	2.5401	3227.619	27.4268	2.7427	22.5195
6	69.000	2.3722	0.9489	69.000	3.4425	1.2049	1	4.5455	0.2273	646.000	6.3159	0.6316	646.000	5.4894	0.5489	2.5276
7	335.392	11.5308	4.6123	237.804	11.8644	4.1525	2	9.0909	0.4545	1050.998	10.2755	1.0276	1191.628	10.1259	1.0126	7.9909
8	71.663	2.4638	0.9855	48.211	2.4053	0.8419	1	4.5455	0.2273	317.471	3.1039	0.3104	362.842	3.0833	0.3083	1.8973
9	48.201	1.6573	0.6029	37.151	1.8535	0.6487	2	9.0909	0.4545	307.600	3.0074	0.3007	313.619	2.6650	0.2665	1.6560
10	200.153	6.8892	2.7521	135.673	6.7490	2.3621	3	13.6364	0.6818	1335.350	13.0556	1.3056	1459.328	12.4007	1.2401	5.9201
11	41.000	1.4626	0.5638	41.000	2.0456	0.7133	0	0.0000	0.0000	608.814	5.9523	0.5952	608.814	5.1734	0.5173	1.6979
TOTALS	2904.659	100.0000	40.0000	2004.349	100.0000	35.0000	22.000	100.0000	5.0000	10228.157	100.0000	10.0000	11768.123	100.0000	10.0000	70.9700

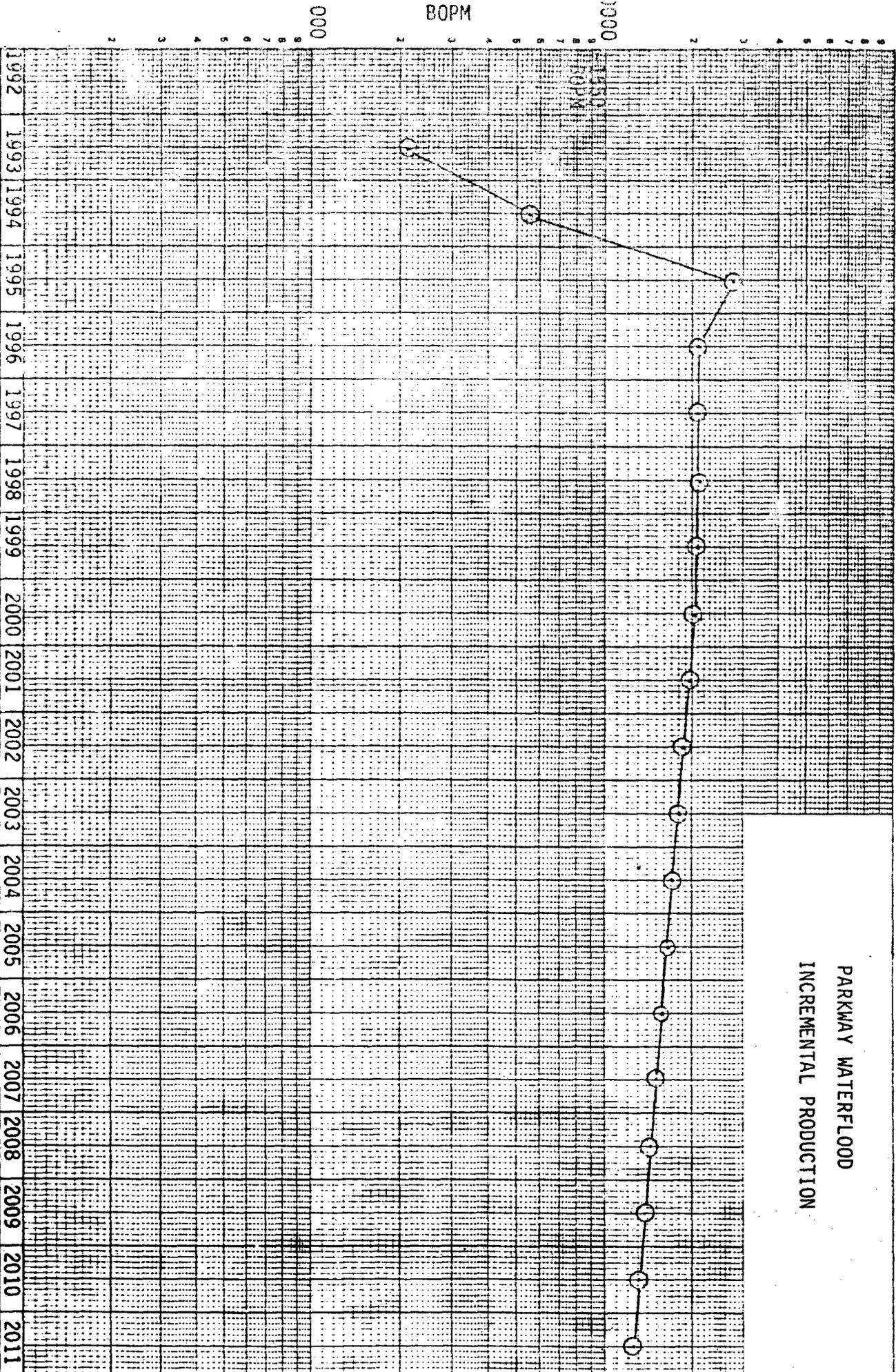
TRACT PARTICIPATION FACTORS

TRACT	WELLS	TRACT FACTORS
1	HALCON ST LEASE	0.3475
2	APACHE A LEASE	25.4424
3	RENEGADE #2 & #3	12.4681
4	RENEGADE #1	5.8770
5	OSAGE #1-5	28.5527
6	FLATHEAD LEASE	2.9115
7	APACHE LEASE	11.9002
8	LONGKNIFE #1	1.9633
9	PARKWAY ST #6 & #7	2.7093
10	PARKWAY ST #2, #3, & #4	6.1301
11	PARKWAY ST #1	1.6979
TOTALS		100.0000

ATTACHMENT #6

UNIT WORKING INTEREST

	31-Mar-92	TRACT 1	TRACT 2	TRACT 3	TRACT 4	TRACT 5	TRACT 6	TRACT 7	TRACT 8	TRACT 9	TRACT 10	TRACT 11	UNIT TOTAL
ALSCO O&G				0.000468	0.000220	0.001142	0.000489						0.001830
ALBNEY DIV. SR				0.002805	0.000322	0.006853	0.000489						0.011469
BILLY G UNDERWOOD				0.001870	0.000882	0.004568	0.000326						0.007320
BLAKEFIELD ENERGY				0.001870	0.000882	0.004568	0.000326						0.007320
BORICA OIL				0.000935	0.000441	0.002284	0.000163						0.003823
BYRON BACHSCHMID				0.000935	0.000441	0.002284	0.000163						0.003823
CAROLINA AMELUNKEN				0.000483	0.000220	0.001142	0.000082						0.000912
CHARLES GREER				0.000935	0.000441	0.002284	0.000163						0.003823
CHARTERS WORTH				0.000935	0.000441	0.002284	0.000163						0.003823
CONOCO				0.000935	0.000441	0.002284	0.000163						0.003823
DEAN DISOLVING				0.001870	0.000882	0.004568	0.000326						0.007320
DR MICHAEL HORTON III				0.002805	0.000322	0.006853	0.000489						0.011469
DR JOSEPH DALE				0.000935	0.000441	0.002284	0.000163						0.003823
FRANCIS TAYLOR				0.000935	0.000441	0.002284	0.000163						0.003823
GEORGE HARRINGTON				0.000935	0.000441	0.002284	0.000163						0.003823
GENE CHUMATE				0.000935	0.000441	0.002284	0.000163						0.003823
HARRINGTON TRIP				0.000935	0.000441	0.002284	0.000163						0.003823
HANSON OPERATING				0.014027	0.006510	0.028553	0.000082						0.049099
HARD D JUSTICE				0.000935	0.000441	0.002284	0.000163						0.003823
JIM KARD				0.000468	0.000220	0.001142	0.000082						0.000912
JOSE RODRIGUEZ				0.000701	0.000351	0.001713	0.000137						0.002745
JARRE & KIRBY				0.004676	0.002204	0.011421	0.000815						0.018116
LORE BARR				0.000935	0.000441	0.002284	0.000163						0.003823
MATZNER OIL CORP.				0.002805	0.001102	0.005711	0.000408						0.010025
MAINE & GAS BELL				0.000374	0.000220	0.001142	0.000082						0.001818
MARY SLODOV				0.000374	0.000220	0.001142	0.000082						0.001818
MARSHAN OIL				0.254424				0.119002					0.373426
MUNN APLE COMPANY				0.002338	0.001102	0.005711	0.000408						0.009568
NATHAN O GREEN				0.001496	0.000441	0.002969	0.000245						0.005151
NELSON BURNER BURNHAM				0.000468	0.000220	0.001142	0.000082						0.001818
PATRICIA MARTELO				0.000935	0.000441	0.002284	0.000163						0.003823
PATTY JENNINGS				0.000468	0.000220	0.001142	0.000082						0.001818
PERMAN HILFEN CORP.				0.000468	0.000220	0.001142	0.000082						0.001818
PETRODUX				0.002805	0.001102	0.005711	0.000408						0.010025
ROBERT ANDERSEN				0.000468	0.000220	0.001142	0.000082						0.001818
SANTAFE				0.031170	0.017142	0.047697	0.003397		0.019633	0.027093	0.061301	0.012734	0.220066
SIETE OIL & GAS				0.033898	0.015072	0.043200	0.012451					0.004245	0.109865
SCOTLAND ROYALTY							0.007279						0.007279
SINAVA				0.000468	0.000220	0.001142	0.000082						0.001818
STUART DAVANSON				0.000935	0.000441	0.002284	0.000163						0.003823
T K CAMPBELL				0.001870	0.000882	0.004568	0.000326						0.007320
TEDDY JAMES				0.000935	0.000441	0.002284	0.000163						0.003823
THOMAS CAMPBELL II				0.001870	0.000882	0.004568	0.000326						0.007320
W D LAWRENCE				0.000935	0.000441	0.002284	0.000163						0.003823
WILLIAM & LORETA HUNKER				0.000935	0.000441	0.002284	0.000163						0.003823
	0.000475		0.254424	0.124681	0.058770	0.285527	0.029115	0.119002	0.019633	0.027093	0.061301	0.016979	1.000000



PARKWAY WATERFLOOD
INCREMENTAL PRODUCTION

**PARKWAY WATERFLOOD AFE
PHASE 1**

Page 1 of 1
2/27/2013 10:00:00 AM

FACILITIES		
1 500 BBL. SETTLING TANK	6000 \$/EA.	\$6,000
2 1000 BBL. STORAGE TANKS	11150 \$/EA.	\$22,300
1 750 BBL. GUNBARREL	10850 \$/EA.	\$10,350
1 REDA PUMPS	23000 \$/EA.	\$23,000
2 CARTRIDGE FILTERS	6300 \$/EA.	\$12,600
2 INJECTION MANIFOLDS	5000 \$/EA.	\$10,000
 INJECTION LINES		
1250' 2 7/8" FIBERGLASS	4.65 \$/FT.	\$5,815
1680' 2 3/8" FIBERGLASS	3.20 \$/FT.	\$5,380
8840' 1 1/2" FIBERGLASS	2.10 \$/FT.	\$18,565
BURY 11770' OF LINES	1.25 \$/FT.	\$14,715
ELECTRICAL HOOKUP		\$12,000
PAD EXTENSION		\$10,000
LABOR		\$20,000
PUMP HOUSE		\$5,000
CONTINGENCY		\$25,000
 TOTAL FACILITIES		 \$201,225
 DRILLING		
2 NEW INJECTION WELLS (SEE ATTACHED DETAIL)	309000 \$/EA.	\$618,000
 CONVERSIONS		
5 CONVERSIONS	22000 \$/EA.	\$110,000
PACKER	1500 \$/EA.	
PLASTIC COAT TUBING	6500 \$/EA.	
PULLING UNIT (4 DAYS)	4000 \$/EA.	
INJECTION HEAD	5000 \$/EA.	
HAULING	2000 \$/EA.	
TEST PACKER	1000 \$/EA.	
MISCELLANEOUS	2000 \$/EA.	
 RECOMPLETIONS		
3 RECOMPLETIONS	35000 \$/EA.	\$105,000
SQUEEZE EXISTING PERFS	8000 \$/EA.	
PULLING UNIT (6 DAYS)	6000 \$/EA.	
PERF & FRAC	21000 \$/EA.	
 MISCELLANEOUS		
WATERFLOOD STUDY & LEGAL		\$120,000
 GRAND TOTAL		 \$1,154,225

APPROVED BY: _____

COMPANY: _____

DATE: _____

**PARKWAY WATERFLOOD AFE
PHASE I**

FACILITIES		
1	500 BBL. SETTLING TANK	6000 \$/EA. \$6,000
2	1000 BBL. STORAGE TANKS	11150 \$/EA. \$22,300
1	750 BBL. GUNBARREL	10850 \$/EA. \$10,850
1	REDA PUMPS	23000 \$/EA. \$23,000
2	CARTRIDGE FILTERS	6300 \$/EA. \$12,600
2	INJECTION MANIFOLDS	5000 \$/EA. \$10,000
INJECTION LINES		
	1250' 2 7/8" FIBERGLASS	4.65 \$/FT. \$5,815
	1680' 2 3/8" FIBERGLASS	3.20 \$/FT. \$5,380
	8840' 1 1/2" FIBERGLASS	2.10 \$/FT. \$18,565
	BURY 11770' OF LINES	1.25 \$/FT. \$14,715
	ELECTRICAL HOOKUP	\$12,000
	PAD EXTENSION	\$10,000
	LABOR	\$20,000
	PUMP HOUSE	\$5,000
	CONTINGENCY	\$25,000
	TOTAL FACILITIES	\$201,225
DRILLING		
2	NEW INJECTION WELLS (SEE ATTACHED DETAIL)	309000 \$/EA. \$613,000
CONVERSIONS		
5	CONVERSIONS	22000 \$/EA. \$110,000
	PACKER	1500 \$/EA.
	PLASTIC COAT TUBING	6500 \$/EA.
	PULLING UNIT (4 DAYS)	4000 \$/EA.
	INJECTION HEAD	5000 \$/EA.
	HAULING	2000 \$/EA.
	TEST PACKER	1000 \$/EA.
	MISCELLANEOUS	2000 \$/EA.
RECOMPLETIONS		
3	RECOMPLETIONS	35000 \$/EA. \$105,000
	SQUEEZE EXISTING PERFS	8000 \$/EA.
	PULLING UNIT (6 DAYS)	6000 \$/EA.
	PERF & FRAC	21000 \$/EA.
MISCELLANEOUS		
	WATERFLOOD STUDY & LEGAL	\$120,000
	GRAND TOTAL	\$1,154,225

APPROVED BY: _____

COMPANY: _____

DATE: _____

PARKWAY WATERFLOOD COSTS
PHASE 2

FACILITIES

1 REDA PUMPS	23000 \$/EA.	\$23,000
INJECTION LINES		
5310' 1 1/2" FIBERGLASS	2.10 \$/FT.	\$11,150
BURY 5310' OF LINES	1.25 \$/FT.	\$6,640
ELECTRICAL HOOKUP		\$2,000
CONTINGENCY		\$5,000
TOTAL FACILITIES		\$47,790

DRILLING

7 NEW INJECTION WELLS	300000 \$/EA.	\$2,163,000
-----------------------	---------------	-------------

GRAND TOTAL \$2,210,790

APPROVED BY: _____

COMPANY: _____

DATE: _____

PARKWAY WATERFLOOD COSTS
PHASE 2

FACILITIES

1 REDA PUMPS	23000 \$/EA.	\$23,000
INJECTION LINES		
5310' 1 1/2" FIBERGLASS	2.10 \$/FT.	\$11,150
BURY 5310' OF LINES	1.25 \$/FT.	\$6,640
ELECTRICAL HOOKUP		\$2,000
CONTINGENCY		\$5,000
TOTAL FACILITIES		\$47,790

DRILLING

7 NEW INJECTION WELLS	309000 \$/EA.	\$2,163,000
-----------------------	---------------	-------------

GRAND TOTAL \$2,210,790

APPROVED BY: _____

COMPANY: _____

DATE: _____

COMPLETION COST

INTANGIBLE

TANGIBLE

Rig time on day work 1 days
 Well service rig 6 days
 Cement & Services Production String
 Cementing Down Hole Equipment
 Casing Bond Log - etc.
 Perforating
 Acidizing & Fracturing
 Cellar Walls & Cover
 Hauling
 Labor, Supervision & Miscellaneous
 Casing 4400 ft. 5 1/2 in.
 Casing _____ ft. _____ in.
 Casing _____ ft. _____ in.
 Tubing 4300 ft. 2 3/8 in.
 Tubing _____ ft. _____ in.
 Casing Head, Valves & Fittings
 Injection Head
 Injection Packer

3000
7200
5000
2000
2000
3000
20000
1000
1000
1000

22000
-0-
-0-
15500
-0-
1000
3500
2000

Tax

2800

2700

TOTAL ESTIMATED COMPLETION COST

48000

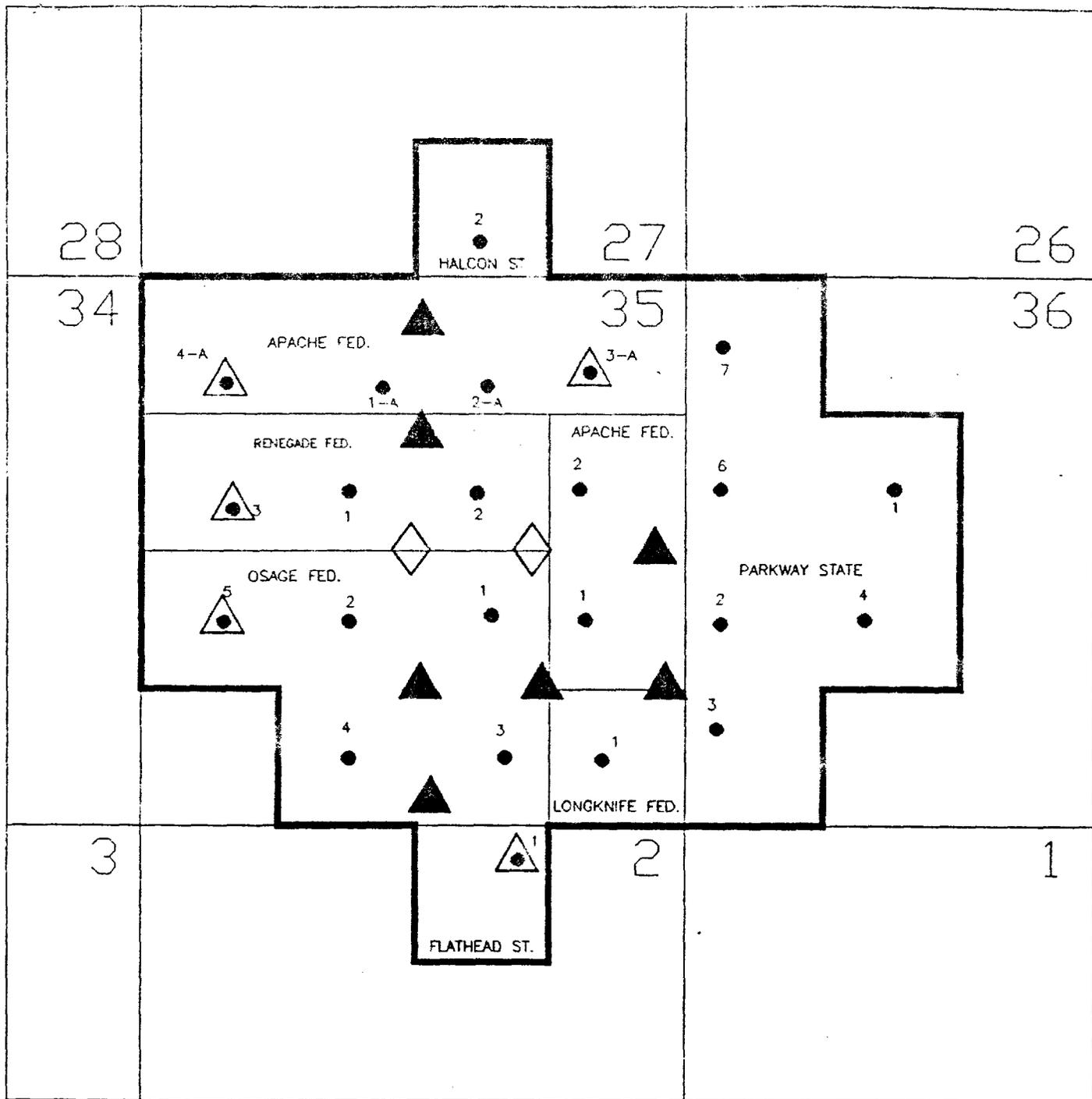
46700

Dry Hole Cost
 Completion Cost

214075
94700

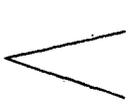
Total Estimated Well Cost

308775



PARKWAY FIELD

EDDY COUNTY, NEW MEXICO

- PHASE 1  Injector to be drilled
-  Proposed injector conversion
- PHASE 2  Proposed new injector

 PROPOSED WATERFLOOD BOUNDARY

