

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CROSSROADS SILURO-DEVONIAN UNIT AREA
LEA COUNTY, NEW MEXICO

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 12133 Exhibit No. 1

Submitted by: Saga Petroleum L.L.C.

Hearing Date: April 29, 1999

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CROSSROADS SILURO-DEVONIAN UNIT AREA
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
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LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1999, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

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

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

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

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

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

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 9 South, Range 36 East, N.M.P.M.

Sections: 27 and 34
Containing 800 acres, more or less,
Lea County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary.

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Saga Petroleum, LLC, whose address is 415 W. Wall, Suite 835, Midland, TX 79701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver

possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until a unit operator so selected shall accept in writing the duties and responsibilities of unit operator.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by an between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement, and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute? and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. PARTICIPATION: The owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

9. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

10. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto.

All rentals, if any, due under any leases embracing lands within the unit, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

11. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provision of all leases, subleases, operating agreements and

other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement.

12. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

13. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

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

15. EFFECTIVE DATE AND TERM: This agreement shall become effective on the date and year set out hereinabove and shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto.

16. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

17. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Oil Conservation Division, and to appeal from orders issued under the regulations of the Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

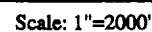
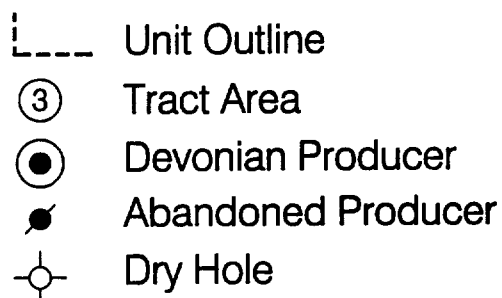
18. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the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

19. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled.

20. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the execution of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by

such joinder, without any retroactive adjustment of revenue.

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



**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 12133 Exhibit No. 2

Submitted by: Saga Petroleum L.L.C.

Hearing Date: April 29, 1999

Exhibit B
Schedule of Tract Participation
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

<u>Tract</u>	<u>Description of Lands</u>	<u>Current Operator</u>	<u>Allocated W. I.</u>
1	E/2 Sec. 34, T 9 S, R 36 E	Saga Pet. LLC	23.653418%
2	NW/4 Sec. 27, T 9 S, R 36 E	Saga Pet. LLC	20.152072%
3	E/2 Sec. 27, T 9 S, R 36 E	Saga Pet. LLC	56.194510%
			100.000000%

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 12133 Exhibit No. 3

Submitted by: Saga Petroleum L.L.C.

Hearing Date: April 29, 1999

Exhibit C
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

Tract #1 - Texaco Sawyer

Legal Description:

320 acres. More or less, comprising the E/2 Sec. 34, Township 9 South, Range 36 East

Royalty Ownership - Fee

Legal Description:

E/2 Sec. 34, Township 9 South, Range 36 East

<u>Owner</u>	<u>Type</u>	<u>Tract R. I.</u>	<u>Tract W.I.</u>	<u>Tract Part.</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>
Sandra Good Ramey Trust	RI	0.01074200				
Price Y-CIA	RI	0.00244150				
Myrl Sawyer Good	RI	0.02506500				
Susie L. Wadley 1st. Tr.	RI	0.00203470				
Susie L. Wadley 1st. Tr.	RI	0.00203460				
Sinclair Trust	RI	0.00195310				
Fernald Point Prod. Tr.	RI	0.00195310				
Candace Good Jacobson	RI	0.03938800				
Thomas Jefferson Good	RI	0.03938800				
Total Royalty		0.12500000				
Sandra Good RA Mey Trust	OR	0.00512700				
Myrl Sawyer Good	OR	0.01196290				
Candace Good Jacobson	OR	0.01879880				
Thomas Jefferson Good	OR	0.01879880				
Total Override		0.05468750				
Saga Pet. LLC	WI	0.01640630	0.02000000	0.23653418	0.00388065	0.00473068
Forcenergy, Inc.	WI	0.61523430	0.75000000	0.23653418	0.14552394	0.17740064
Saga Pet. Corp.	WI	0.18867190	0.23000000	0.23653418	0.04462735	0.05440286
Tract R.I.		0.82031250		Unit R.I.	0.19403194	
Tract W.I.			1.00000000	Unit W.I.	0.23653418	

Exhibit C
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

Tract #2 - Santa Fe

Legal Description:

160 acres. More or less, comprising the NW/4 Sec. 27, Township 9 South, Range 36 East

Royalty Ownership - Fee

<u>Owner</u>	<u>Type</u>	<u>Tract R. I.</u>	<u>Tract W.I.</u>	<u>Tract Part.</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>
Allan Capital Corp.	RI	0.00714280				
Floos, Inc.	RI	0.12500000				
H. Wayne Hoover	RI	0.00714280				
C. Thomas Houseman	RI	0.00357140				
Mystique Resources Co.	RI	0.00714280				
Edward J. Names	RI	0.00714280				
C.L. Nordstrom	RI	0.00714280				
Bruce M. Patterson	RI	0.00714280				
Total Royalty		0.17142820				
Floos, Inc.	OR	0.02557180				
Total Override		0.02557180				
Saga Pet. LLC	WI	0.01448500	0.01820000	0.20152072	0.00291903	0.00366768
Yellow Queen Uranium Co.	WI	0.02625000	0.03000000	0.20152072	0.00528992	0.00604562
Alfa Resources, Inc.	WI	0.05250000	0.06000000	0.20152072	0.01057984	0.01209124
Forcenergy, Inc.	WI	0.54318750	0.68250000	0.20152072	0.10946354	0.13753789
Saga Pet. Corp.	WI	0.16657750	0.20930000	0.20152072	0.03356882	0.04217829
Tract R.I.		0.80300000	Unit R.I.		0.16182114	
Tract W.I.			1.00000000	Unit W.I.		0.20152072

Exhibit C
Crossroads Siluro-Devonian Unit
Unit Agreement
Lea County, New Mexico

Tract #3 - U.D. Sawyer

Legal Description:

320 acres. More or less, comprising the E/2 Sec. 27, Township 9 South, Range 36 East

Royalty Ownership - Fee

<u>Owner</u>	<u>Type</u>	<u>Tract R. I.</u>	<u>Tract W.I.</u>	<u>Tract Part.</u>	<u>Unit Rev. Int.</u>	<u>Unit Work Int.</u>
Susie L. Wadley First Trust	RI	0.00203453				
Fernald Point Prod. Tr.	RI	0.00195310				
Susie Wadley Tr. #10-05527	RI	0.00203457				
Sinclair Rev. Tr. #0108952	RI	0.00195310				
William Marsh Rice Univ.	RI	0.05729170				
Candace G. Jacobson	RI	0.02208116				
Thomas J Good III	RI	0.02208106				
Price & Cia, Inc.	RI	0.00244140				
Myrl Sawyer Good	RI	0.00537109				
Beja Embry	RI	0.00537109				
Myrl Good Suc. Trustee	RI	0.00238720				
Total Royalty		0.12500000				
Floos, Inc.	OR	0.04218750				
Total Override		0.04218750				
Saga Pet. LLC	WI	0.01592884	0.01916880	0.56194510	0.00895113	0.01077181
Gerald D. Mills	WI	0.00519533	0.00593750	0.56194510	0.00291949	0.00333655
Yuma Explor & Prod.	WI	0.00246096	0.00281250	0.56194510	0.00138292	0.00158047
Perry & Patricia Shaw Tr.	WI	0.00027344	0.00031250	0.56194510	0.00015366	0.00017561
Forcenergy, Inc.	WI	0.59733405	0.71882810	0.56194510	0.33566894	0.40394193
Saga Pet. Corp.	WI	0.18318248	0.22044060	0.56194510	0.10293850	0.12387552
Saga Pet LLC FAO-TMN	WI	0.02789060	0.03187500	0.56194510	0.01567299	0.01791200
Marius Jensen Nygaard, Jr.	WI	0.00054680	0.00062500	0.56194510	0.00030727	0.00035122
Tract R.I.		0.83281250				
Tract W.I.			1.00000000		Unit W.I.	0.56194510
All Tracts						1.00000000

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 12133 Exhibit No. 4

Submitted by: Saga Petroleum L.L.C.

Hearing Date: April 29, 1999