



PETROLEUM

#12133

AUG 23 1999

August 6, 1999

New Mexico OCD
2040 S. Pacheco
Santa Fe, NM 87505

Re: Order R-11218

Gentlemen:

Enclosed are the ratifications and unit agreement for the Crossroads Siluro-Devonian Unit as outlined in the subject order.

If you have any additional questions, or need any additional information, please call 915-684-4293.

Sincerely,

Joe N. Clement
NM Area Engineer

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

UNIT AGREEMENT
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OF THE
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LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
CROSSROADS SILURO-DEVONIAN UNIT AREA
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 "C" 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 "C" 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.

ARTICLE 21
COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

ARTICLE 22
SUCCESSORS AND ASSIGNS

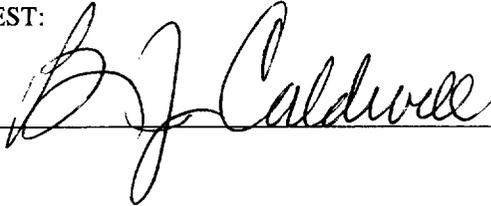
22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

SAGA PETROLEUM CORP.

WORKING INTEREST OWNER

BY:  DATE: 7/9/99
TITLE: PRESIDENT

ATTEST:
BY:  DATE: 7/9/99

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SAGA PETROLEUM, LLC.

WORKING INTEREST OWNER

BY:  DATE: 7/9/99
TITLE: MANAGER

ATTEST:

BY:  DATE: 7-9-99

CONSENT AND RATIFICATION
CROSSROADS SILURO-DEVONIAN UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more) hereby acknowledge receipt of a copy of the Unit Agreement for the Development and Operation of the Crossroads Siluro-Devonian Unit Area embracing land situated in Lea County, New Mexico, which said agreement is dated the 1st day of June 1999, and acknowledge that they have read the same and are familiar with its terms and conditions. The undersigned, also being the owner of leasehold, royalty or other interest in the land or minerals embraced in said unit, do hereby commit all of their said interests to the Crossroads Siluro-Devonian Unit Agreement and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

In witness whereof, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Perry L. Shaw
Name Perry L. Shaw
Trustee
Title

for the Perry and Patricia Shaw Trust

ACKNOWLEDGMENT

State of TEXAS §
County of HARRIS §

The foregoing instrument was acknowledged before me on this 29th day of July, 1999, by Perry L. Shaw, Trustee of the Perry and Patricia Shaw Trust, Grantor Trust on behalf of the Perry and Patricia Shaw Trust.

My commission expires:

12-08-2002

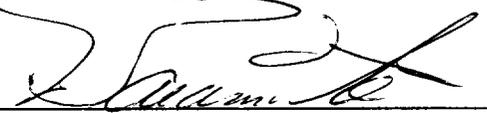


Alexandra Reed
Notary Public in and for
the State of TEXAS

CONSENT AND RATIFICATION
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LEA COUNTY, NEW MEXICO

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In witness whereof, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.


Name _____
Title Land Mgr. 

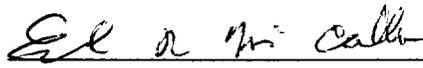
for Forcenergy Inc.,

ACKNOWLEDGMENT

State of Louisiana §
Parish _____ §
County of Jefferson §

The foregoing instrument was acknowledged before me on this 21st day of June, 1999, by M. J. Baia Monte, Jr., Land Manager of Forcenergy Inc, a Delaware Corporation on behalf of Forcenergy Inc.
Name Title State Entity

My commission expires:


Notary Public in and for
the State of _____

EARL R. McCALLON
NOTARY PUBLIC, JEFFERSON PARISH
STATE OF LOUISIANA
MY COMMISSION IS ISSUED FOR LIFE

ARTICLE 21
COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

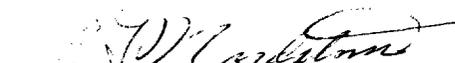
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22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

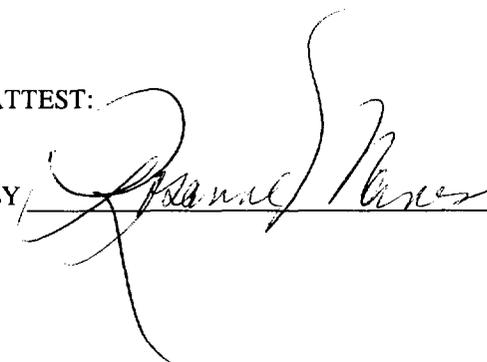
YELLOW QUEEN URANIUM COMPANY

Working Interest Owner

BY:  DATE: 5-3-99

TITLE: Pres.

ATTEST:

BY:  DATE: 5.3.99

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COUNTERPART EXECUTION

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

GERALD D MILLS Working Interest Owner

G D Mills DATE: 4/28/99

ATTEST:

BY *Rose Mills* DATE: 4/28/99

ARTICLE 21
COUNTERPART EXECUTION

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

ALFA RESOURCES INC

Working Interest Owner

BY: *(S) Woodstrom* DATE: 4-27-99

TITLE: Pres.

ATTEST:

BY: *Deanne Jones* DATE: 4-27-99

ARTICLE 21
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SUCCESSORS AND ASSIGNS

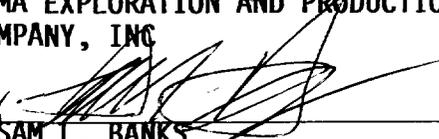
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YUMA EXPLORATION AND PRODUCTION
COMPANY, INC

Working Interest Owner

By: X


SAM L. BANKS

DATE: July 29, 1999

TITLE: President




Alexandra, Assistant Secretary

DATE: July 29, 1999

Memo

To: Mark Ashley
From: Joe Compton
Date: 06/18/99
Re: Meteor Industries

Mark,

Of the entities in the leases being unitized in Crossroads. The below entities all have the same address and telephone number.

Alfa Resources – WI owner in the Santa Fe lease.

Yellow Queen Uranium Company – WI owner in the Santa Fe lease.

Meteor Industries Inc.

All three have the same address:

216 16th Street, Suite 730

Denver, CO 80202

Surprisingly, the phone number for all three companies is 303/572-1135, which gets you to an automated answering system.

CONFIDENTIAL

PENROC

April 27, 1999

Ms. Lori Wrotenbery
Division Director
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

30

**Re: Saga Operated
Proposed Crossroads Siluro Devonian Unit
Section 27 & 34, T-9-S, R-34-E
Lea County, New Mexico**

Case 12133

Dear Ms. Wrotenbery:

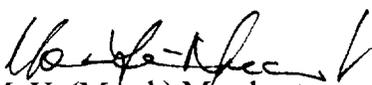
Penroc Oil Corporation and Floos, Inc. (a wholly owned subsidiary of Penroc) is in receipt of Saga Petroleum's letter dated April 11, 1999 regarding the captioned proposed unit. Following is a comment and an **objection**:

1. Floos Inc. was assigned a .0003125 ORRI interest in the Texaco U.D. Sawyer lease, which by mistake has been omitted in the proposed Unit Agreement.
2. Our correlative rights are being adversely effected in the Santa Fe lease located in the NW/4 of Section 27. This is due to the fact Saga's proposal is to allocate production on an acreage basis.

For example, Santa Fe lease is averaging 50-60 bopd. Penroc/Floos have a 12.5% royalty interest and a 2.55718% ORRI. The U.D. Sawyer is averaging 30-40 bopd and Floos has a 4.21875% ORRI. The ORRI interest in Texaco U.D. Sawyer is not of much significance at present. Based on our calculations, Penroc/Floos net production will be 50% of what it is now if Saga's proposal is approved as submitted.

I therefore, respectfully request the Division not to approve the proposed Unit as submitted. Thank you.

Sincerely,


M. Y. (Merch) Merchant
President

CC: Saga Petroleum

MAILING ADDRESS:
PO Box 5970
Hobbs, NM
88241-5970

DELIVERY ADDRESS:
5014 Carlsbad Hwy.
Hobbs, NM
88240-1118

(505) 397-3596 Phone
(505) 393-7051 FAX

COUNTY *Lea*

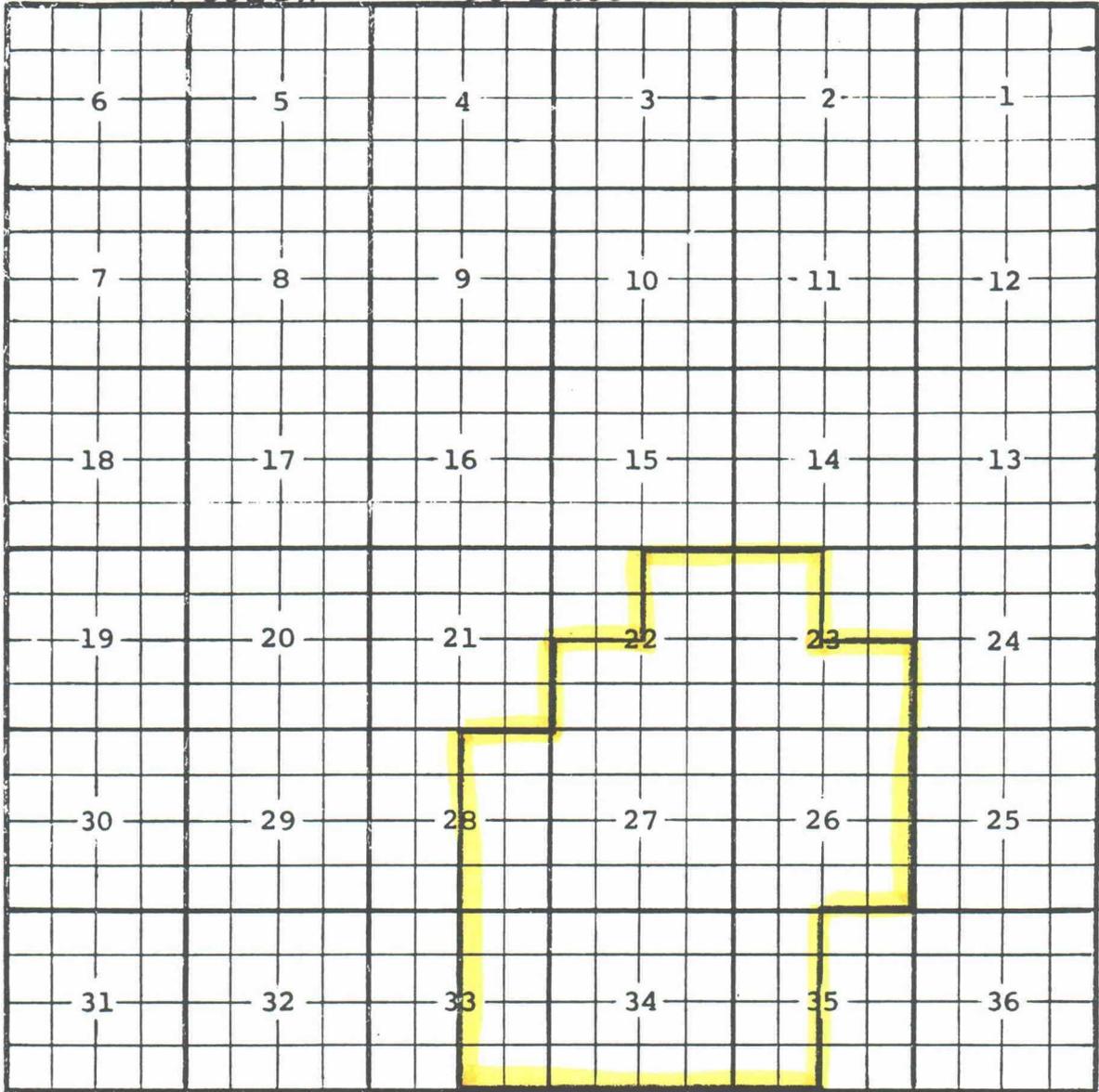
POOL *Crossroads*

(*Siluro-Dev.*)

TOWNSHIP *9-South*

RANGE *36-East*

NMPM



Description: $\frac{W}{2}$ Sec. 26; All Sec. 27; $\frac{E}{2}$ Sec. 28; $\frac{E}{2}$ Sec. 33; All Sec. 34; $\frac{W}{2}$ Sec. 35.

Ext: $\frac{SW}{4}$ Sec. 23, (R-310) - $\frac{S}{2}$ Sec. 22, (R-386) - $\frac{E}{2}$ Sec. 26 (R-641, 6-13-55) - $\frac{NE}{4}$ Sec. 22; $\frac{NW}{4}$ Sec. 23, (R-948, 1-30-57) - $\frac{SE}{4}$ Sec. 23, (R-1042, 8-29-57).

PENROCKCase #
12133**VIA FACSIMILE: (505) 983-6043**

Mr. William F. Carr
Campbell, Carr, Berge & Sheridan, P.A.
Jefferson Place, Suite 1, -110 North Guadalupe
Santa Fe, New Mexico 87504-2208

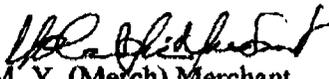
**Re: Proposed Order of the Division
Saga Petroleum
Crossroads Siluro-Devonian Unit
Lea County, New Mexico**

Dear Bill:

Thank you for sending me a copy of the proposed order on the captioned. By copy of this letter I am requesting you and the Division to add the monthly testing of the well in order to properly allocate the production from various wells comprising the unit. I am also requesting the Division to consider in the order witnessing of the tests on the wells in the proposed unit by an independent party.

Sorry, I was not able to get you over the phone a few minutes ago. If you have any questions, please call or fax me. Thank you.

Sincerely,


M. Y. (Merch) Merchant
President

CC: Mr. Mark Ashley (505) 827-8177

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

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
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KATHERINE M. MOSS
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JEFFERSON PLACE
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SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
FACSIMILE: (505) 983-6043
E-MAIL: ccbspa@tx.netcom.com

June 28, 1999

HAND DELIVERED

Mr. Mark Ashley, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

***Re: Application of Saga Petroleum L. L. C. for approval of a unit agreement,
Lea County, New Mexico.***

Dear Mr. Ashley:

Pursuant to our recent conversations, enclosed is a proposed order in the above-referenced case which grants the application of Saga Petroleum, L. L. C. which addresses the concerns raised by Penroc Oil Corporation and Floos, Inc. in their letter to you dated April 27, 1999. Since the Crossroads Siluro Devonian Unit is a voluntary unit, only the interests committed thereto will be subject to the provisions of the unit agreement. Therefore, unless Penroc or Floos ratify the agreement or have otherwise agreed for their interests to be committed to this unit, their royalty will continue to be calculated and paid as it is without unitization and their royalty interests will not be affected. Finding 5 in our proposed order addresses this matter.

Questions were raised by the Division concerning the substances unitized by this agreement. To clarify this matter, Finding 3 and Order paragraph 1 provide for unitization of only oil, gas, natural gasoline and associated fluids are unitized.

As Mr. Compton testified at the April 29, 1999 hearing, the purpose of this application is to enable Saga to effect economic savings that will permit it to extend the life of the wells on the unit area thereby preventing waste of hydrocarbons. This application is similar to the

Mr. Mark Ashley

June 28, 1999

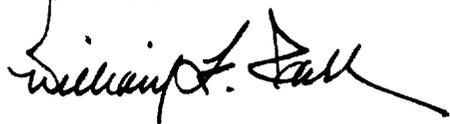
Page 2

application for statutory unitization of the Myers-Langlie Mattix Unit (Case No. 6987, Order No. R-6447) where the reservoir was unitized to enable the unit operator to eliminate the duplication of surface facilities thereby enabling the operator to more efficiently develop the remaining reserves in the reservoir by extending the economic life of the project.

Saga estimates that unitization will reduce expenses of operating the unit by as much as \$3000 per month and that this savings will enable it to extend the economic lives of the wells in the unit area.

If you have additional questions concerning this application, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

WILLIAM F. CARR

Attorney for Saga Petroleum L. L. C.

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**APPLICATION OF SAGA PETROLEUM L.L.C.
FOR APPROVAL OF A UNIT AGREEMENT,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12133

**SAGA PETROLEUM L.L.C.'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on April 29, 1999 at Santa Fe, New Mexico, before Examiner Mark Ashley.

NOW, on this ____ day of June, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Saga Petroleum L.L.C., ("Saga"), seeks approval of its Crossroads Siluro-Devonian Unit Agreement and Area for all oil and gas in any and all formations in an area underlying the following described 800 acres, more or less, of fee lands in Lea County, New Mexico:

TOWNSHIP 9 SOUTH, RANGE 36 EAST, NMPPM

Section 27: N/2, SE/4

Section 34: E/2

(3) The unit agreement provides for the unitization of oil, gas, natural gasoline and associated fluids. No other substances are unitized.

(4) Penroc Oil Corporation and Floos, Inc., non-joining interest owners in the proposed unit area, wrote the Division and objected to the proposed unitization because of their concern that unitization would result in a reduction of the net production allocated to their interests. No other interested party appeared at the hearing or otherwise objected to the proposed unit.

(5) The proposed Crossroads Siluro-Devonian Unit Agreement is a voluntary agreement unit which only governs the interests voluntarily committed thereto. The allocation of production to non-ratifying interest owners is controlled by the provisions of their underlying leases and other agreements which are not affected by the provisions of the unit agreement or this order.

(6) All plans of development and operation, and creations, expansions or contractions of the unit area should be submitted to the Director of the Division for approval.

(7) Approval of the proposed unit should enable the operator to effect savings in the conduct of operations on this acreage thereby extending the remaining life of the wells in the unit area and will thereby promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED THAT:

(1) The Crossroads Siluro-Devonian Unit Agreement is hereby approved for all oil, gas, natural gasoline and associated fluids in any and all formations underlying the following described 800 acres, more or less, of fee land in Lea County, New Mexico:

PROPOSED ORDER OF THE DIVISION

Page 2

TOWNSHIP 9 SOUTH, RANGE 36 EAST, NMPM

Section 27: N/2, SE/4

Section 34: E/2

(2) The plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principal as a proper conservation measure; provided, however, notwithstanding any of the provisions contained in said unit agreement, this approval shall not be construed as waiving or relinquishing, in any manner, any right, duty or obligation which is now, or may hereafter be vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) The operator shall file with the Division an executed original of executed counterpart of the unit agreement within 30 days after the effective date thereof; in the event of subsequent joinder by any other party or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) All plans of development and operation, all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) This order shall terminate ipso facto upon the termination of said unit agreement; and the last unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

S E A L

PROPOSED ORDER OF THE DIVISION

Page 3

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

MICHAEL B. CAMPBELL
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April 12, 1999

HAND-DELIVERED

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

Re: ***Oil Conservation Division Case No. 12133:
Application of Saga Petroleum, L.L.C., for approval of a Unit Agreement,
Lea County, New Mexico***

Dear Ms Wrotenbery:

Saga Petroleum, L.L.C., respectfully requests that this matter which is currently set on the Division docket for the April 15, 1999 hearings be continued to the April 29, 1999 Examiner docket.

Your attention to this matter is appreciated.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

cc: Mr. Joe Compton
c/o Avalon Energy
Post Office Box 2458
Midland, TX 79702

OIL CONSERVATION DIV.
99 APR 12 PM 2:13

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

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E-MAIL: ccbspa@ix.netcom.com

March 1, 1999

HAND-DELIVERED

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



99 FEB 29 PM 3:11
OIL CONSERVATION DIV

Re: ***Oil Conservation Division Case No. 12133:
Application of Saga Petroleum, L.L.C., for approval of a Unit Agreement,
Lea County, New Mexico***

Dear Ms Wrotenbery:

Saga Petroleum, L.L.C., respectfully requests that this matter which is currently set on the Division docket for the March 4, 1999 hearings be continued to the April 15, 1999 Examiner docket.

Your attention to this matter is appreciated.

Very truly yours,



Paul R. Owen

PRO:mlh

cc: Mr. Joe Compton