

STATE/FEDERAL/FEE
WATERFLOOD UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

WEST HIGH LONESOME UNIT AREA

EDDY COUNTY, NEW MEXICO

NO. _____

OIL CONSERVATION DIVISION

CASE NUMBER _____

Beach EXHIBIT 2

Rev. 1/92

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FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST HIGH LONESOME UNIT
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Rev. 1/92

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST HIGH LONESOME UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of October, 2000, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil and gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Sec. 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 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

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

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

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their respective interest in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the Effective Date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the state in which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

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

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 1,156.60 acres, more or less, in Eddy County, New Mexico.

(b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

- (c) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.
- (d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.
- (e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.
- (f) "Department" is defined as the Department of the Interior of the United States of America.
- (g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.
- (h) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extended from an upper limit described as 1,570 feet (+2,017 feet) below mean sea level or as the top of the Penrose Sand member of the Queen Formation as found in Beach Exploration, Inc.'s (originally drilled by Rosewood Resources, Inc.) Rosewood "18" State #1 well (located 1,650 feet FSL and 330 feet FWL of Section 18, T-16-S, R-29-E, Eddy County, New Mexico) as recorded on the Dresser Atlas Densilog/Neutron Gamma Ray Log recorded on March 12, 1987, said log being measured from a Kelly drive bushing elevation of 3,587 feet above sea level. The lower limit shall be described as 1,810 feet (+1,839) below mean sea level or at the base of the Penrose Sand member of the Queen Formation as found in Beach Exploration, Inc.'s (originally drilled by Utah Unit Oil Company) Isle Federal #3 well (located at 330 feet FNL and 2,310 feet FWL of Section 20, T-16-S, R-29-E, Eddy County, New Mexico) as recorded on the Schlumberger Gamma Ray - Neutron Log recorded on August 21, 1955, said log being measured from 1 foot above ground level elevation of 3,649 feet above sea level.
- (i) "Unitized Substances" are all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons, other than outside substances, within and produced from the Unitized Formation.
- (j) "Tract" is each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "~~B~~" "C" for allocating Unitized Substances to a Tract under this agreement.
- (l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.
- (m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.
- (n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.
- (o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.
- (p) "Royalty Owner" is the owner of a Royalty Interest.
- (q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, *infra*, and shall be styled "Unit Operating Agreement, West High Lonesome Unit, Eddy Co., New Mexico".
- (r) "Oil and Gas Rights" is the right to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.
- (s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.
- (t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

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

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

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

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

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

SECTION 3. EXHIBITS. The following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area. Exhibit "C" is a table showing the Tract Participation for each tract based on ultimate primary production. 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 in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest Owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

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

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest 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:

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

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

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

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

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". Nothing herein shall be construed to unitize, pool, or in any way affect

the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2 (h) of this Agreement.

SECTION 6. UNIT OPERATOR. BEACH EXPLORATION, INC. is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, agrees and consents to accept the duties and obligations of Unit Operator for the operation, development, and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, when such interest are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

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

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the A.O. unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

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

The resignation or removal of Unit Operator under this Agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

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

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A.O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be

construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

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

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

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

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

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

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

~~Tract Participation = 50% A/B + 40% C/D + 10% E/F~~

~~A = the Tract Cumulative Oil Production from the Unitized Formation as of September 30, 1982.~~

~~B = the Unit Total Cumulative Oil Production from the Unitized Formation as of September 30, 1982.~~

~~C = the Remaining Primary Oil Reserves from the Unitized Formation for the Tract, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.~~

~~D = the Remaining Primary Oil Reserves from the Unitized Formation for all Unit Tracts, beginning October 1, 1982, as determined by the Technical Committee on February 25, 1983.~~

~~E = the amount of oil produced from the Unitized Formation by the Tract from January 1, 1982, through September 30, 1982.~~

~~F = the amount of oil produced from the Unitized Formation by all Unit Tracts from January 1, 1982, through September 30, 1982.~~

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

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

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

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

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

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith 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 Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" 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.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

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

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

excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.D. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

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

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

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

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

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

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

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

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" 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 interest of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

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

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

SECTION 21. LOSS OF TITLE. In the event title to any Tract of unitized land shall fail and the true owner cannot be induced to join in this Agreement, such Tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any Royalty, Working Interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

- (a) require that the party to whom such Unitized Substance are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or
- (b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgement of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

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

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

SECTION 22. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling, producing or improved recovery operations performed hereunder shall be deemed to be performed upon and for the benefit of each Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

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

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

(g) The segregation of any Federal lease committed to this Agreement is governed by the following provision in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization; provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

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

If this Agreement does not become effective on or before March 15, 2002, it shall ipso facto expire on said date (hereinafter call "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before the Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

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

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

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer

profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owners' determination. Notice of any such termination shall be filed by Unit Operator in the office of the County Clerk of _____ Eddy County, New Mexico, within thirty (30) days of the effective date of termination.

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

Notwithstanding any other provisions in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

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

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

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

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHT. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

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

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A.O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing, specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

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

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date hereof. All such oil which has been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

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

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

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

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

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

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

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

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

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

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

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

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

Executed as of the day and year first above written.

BEACH EXPLORATION, INC.

By: _____

Date of Execution: _____

STATE OF TEXAS
COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this _____ day of _____ 2001, by, Robert N. Hinson, Vice President of Land, for/of Beach Exploration, Inc., a Texas corporation, on behalf of said corporation.

Notary Public in and for the State of Texas

NON-OPERATORS:

KNG America, Inc.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Aline H. Amos

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Arthur C. Atkins

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Burton E. Atkins Estate

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

George E. Atkins, Jr.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Rose Burton Atkins

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Hazel Sims Baldwin

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

William N. Beach, Ltd.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Merlyne V. Bergstrom

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Brock Oil & Gas Corporation

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Broughton Petroleum Inc.

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Cleo & Sue Brown

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

William & Phyllis Bucholtz

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Julie Calvart

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

John R. Carmony

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Chaparral Oil, Inc.

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Chase Oil Company

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Christopher K. Clark

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Margaret Irene Davey

Dated: _____

Attest

By: _____

Name & Title

C. R. Devine

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Beverly J. Durham

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

C R F Eckels

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Eckels Family Trust

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Nancy B. & C. B. Ellis Trust

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Exxon Corporation

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Featherstone Development Corp.

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Barbara Frankenfield

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Robert Franklin

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Cara Lynn Gant

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

John W. Gates

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Arnold M. Gaynor

Dated: _____

By: _____

Attest

Name & Title

Elizabeth Hammack

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Paul Hanger

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Frederick Flint Herman

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Sam E. Hilburn

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Hinkle Investment Company

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Madison M. Hinkle

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Rolla R. Hinkle, III

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Phyllis Isles Estate

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Robert Isles

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

K & C Production Co. Inc.

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Mitchell Robert Kirkpatrick

Dated: _____

By: _____

Attest _____

Name & Title _____

T. A. Kirkpatrick

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

William H. Kirkpatrick

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Edward C. Knox

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Sally Lanning

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Carlyn & E. Treece Lansford

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Fred Lemon Jr.

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Rosabelle Malone

Dated: _____

By: _____

Attest _____

Name & Title _____

SS or Tax ID _____

Steve & Gail Marrs

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Marshall & Winston Inc.

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Louis M. Martinez, Jr.

Dated: _____

Attest

By: _____

Name & Title

McClellan Oil Corporation

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Jack L. & Barbara McClellan

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Lisa McClellan

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Mark & Paula McClellan

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

G. K. McDonald

Dated: _____

Attest

By: _____

Name & Title

SS or Tax ID

Dan R. McGregor

Dated: _____

Attest

By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Alexandra Morris
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Robert E. Morris
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Pauline Nicholson
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
J. Norton Company
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
S. Howard Norton
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Norwood Oil Company
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Judith F. Oliphant
By: _____

Name & Title

Dated: _____

Attest

SS or Tax ID
Ben Poir Estate
By: _____

Name & Title

SS or Tax ID

Randolph M. Richardson

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Suzanne C. & Richard Roberts

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Johnie P. Rose Estate Trust

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Judith L. Rose Estate Trust

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

S & M Oil Operations

Dated: _____

By: _____

Attest

Name & Title

Morris E. Schertz

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Sam L. Setterlund

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Mike L. Shelton

Dated: _____

By: _____

Attest

Name & Title

SS or Tax ID

Samin I Sirmen Estate

Dated: _____

By: _____

Attest _____

Dated: _____

Attest _____

Name & Title

SS or Tax ID

Paul Slayton

By: _____

Name & Title

SS or Tax ID

Janet C. Sower

By: _____

Name & Title

SS or Tax ID

Suntex Resources Inc.

By: _____

Name & Title

SS or Tax ID

Bill G. Taylor

By: _____

Name & Title

SS or Tax ID

Harvey R. Taylor

By: _____

Name & Title

SS or Tax ID

Deloris & Virgil Taylor

By: _____

Name & Title

SS or Tax ID

Sandra Terry

By: _____

Name & Title

SS or Tax ID

The Toles Company

By: _____

Name & Title

Dated: _____

Attest

Larry R. Troublefiled S/P
By: _____

Name & Title

SS or Tax ID

David G. Tucker
By: _____

Name & Title

SS or Tax ID

Steven J. Tucker
By: _____

Name & Title

SS or Tax ID

Barbara Walker
By: _____

Name & Title

SS or Tax ID

Norman E. Wells
By: _____

Name & Title

SS or Tax ID

Kevin Whelan
By: _____

Name & Title

SS or Tax ID

Fred Whitaker
By: _____

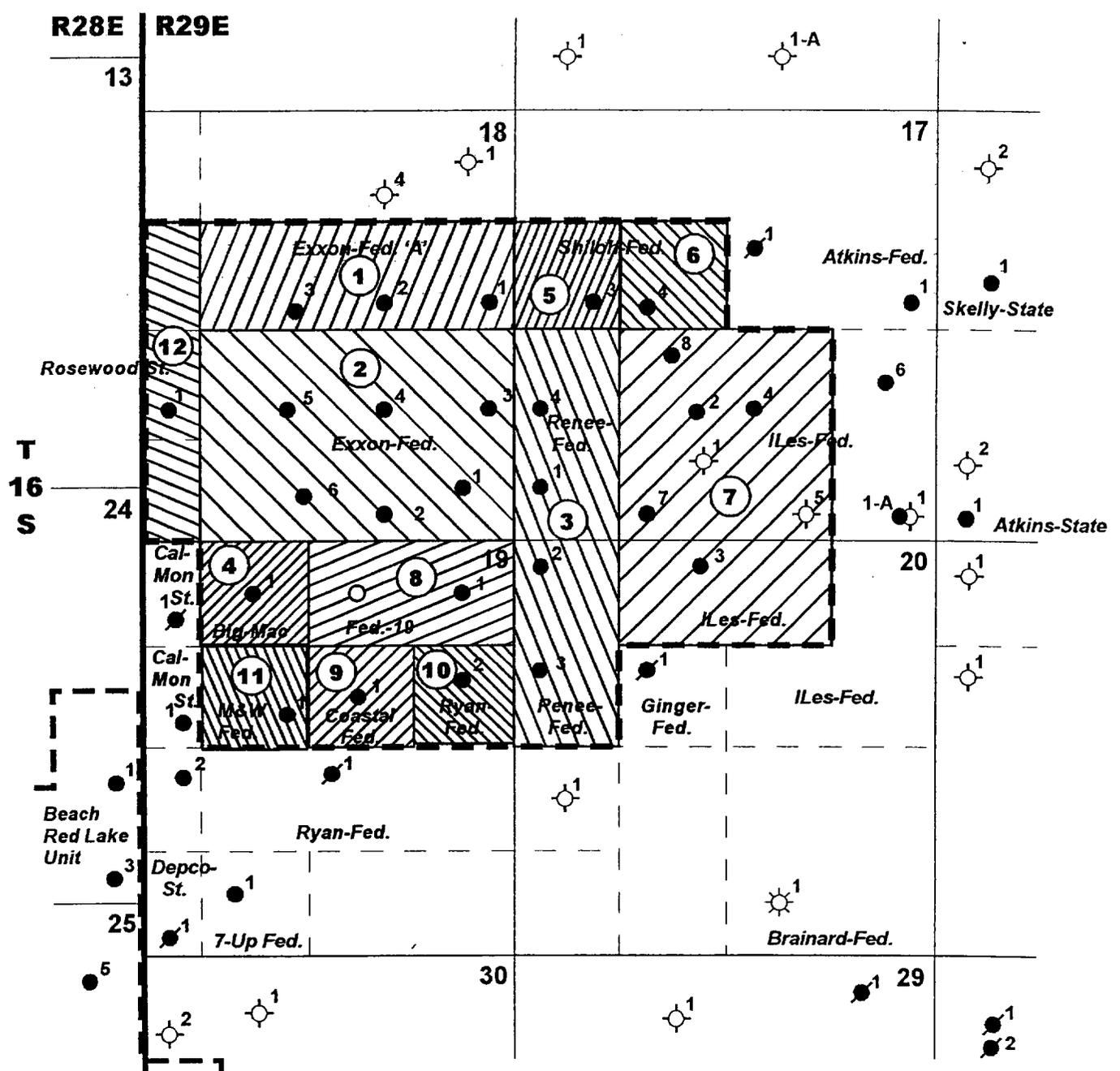
Name & Title

SS or Tax ID

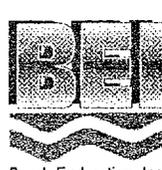
Paul G. White
By: _____

Name & Title

SS or Tax ID



Tracts **1** – **11** 1080.0 Acres Federal Lands
 Tract **12** 76.6 Acres State Lands
 0.0 Acres Fee Lands
 1156.6 Acres Total Unit



Beach Exploration, Inc.

WEST HIGH LONESOME PENROSE SAND UNIT

EXHIBIT "A"

Proposed Unit Outline

Tract Number



Eddy County, New Mexico
JMR

Scale: 1"=2000
October 2000

EXHIBIT "B"
West High Lonesome Unit
Eddy County, New Mexico

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
1	Exxon Federal "A" Section 18: S/2 NE/4, SE/4 NW/4 T-16-S, R-29-E	120	NM-26072 HBP	USA	Exxon Corporation	1.00000000	Margaret Irene Davey Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Sam L. Setterlund Annie L. Kirkpatrick Williams Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm. & Phyllis Bucholtz Arnold Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samin I. Sirmen Estate
2	Exxon Federal Section 18: SE/4, E/2 SW/4 T-16-S, R-29-E	240	NM-26072 HBP	USA	Exxon Corporation	1.00000000	John R. Carmony Margaret Irene Davey C. R. Devine C. B. & Nancy B. Ellis Trust Exxon Corporation John W. Gates Mitchell Robert Kirkpatrick T. A. Kirkpatrick William H. Kirkpatrick Jr. Dan R. McGregor Sam L. Setterlund David G. Tucker Steven J. Tucker Annie L. Kirkpatrick Williams Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Wm & Phyllis Bucholtz Arnold M. Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samin I. Sirmen Estate
3	Renee Federal Section 17: W/2 SW/4	160	LC-046119 (a) HBP	USA	McClellan Oil Corporation	1.00000000	Cleo Brown & Sue Brown Cara Lynn Gant Beach Exploration, Inc. KNG America, Inc.

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners
	Section 20: W/2 NW/4 T-16-S, R-29-E						
						Phyllis Iles Estate Robert Iles Carolyn & E Treese Lansford Fred Lemon Jr. Jack L & Barbara McClellan Lisa McClellan Mark & Paula S. McClellan McClellan Oil Corporation Pauline Nicholson Randolph M. Richardson Suzanne C. & Richard L. Roberts Paul Slayton Deloris & Virgil Taylor The Toles Company	Barbara Walker
						0.0046875 0.0023438 0.0002679 0.0093750 0.0037500 0.0007500 0.0007500 0.0371161 0.0093750 0.0093750 0.0007500 0.0125000 0.0007500 0.0053571	0.0026786
4	Big Mac Federal Section 19: NE/4 NW/4 T-16-S, R-29-E	40	NM-57324 HBP	USA	Colin R. McMillan	1.0000000 K & C Production Co. Inc. Jack L. & Barbara McClellan Lisa C. McClellan Mark & Paula S. McClellan McClellan Oil Corporation Suzanne C. & Richard L. Roberts	Beach Exploration, Inc. KNG America, Inc.
						0.0187500 0.0050000 0.0004200 0.0004200 0.0250000 0.0004100	0.3529575 0.6470425
5	Shiloh Federal #3 Section 17: SW/4 NW/4 T-16-S, R-29-E	40	LC-062996(b)	USA	Tony K. Love, et al	1.0000000 Arthur C. Atkins Burton E. Atkins Estate George E. Atkins Jr. Rose Burton Atkins Featherstone Development Corp Cara Lynn Gant Hinkle Investment Company Phyllis Iles Estate Robert Iles Fred Lemon Jr. Pauline Nicholson Norwood Oil Company Fred Whittaker Paul G. White	Beach Exploration, Inc. KNG America, Inc. Steve & Gail Marrs
						0.0020833 0.0020833 0.0020833 0.0062500 0.0062500 0.0011719 0.0062500 0.0023438 0.0011719 0.0093750 0.0046875 0.1000000 0.0062500 0.0500000	0.3775323 0.6024677 0.0200000

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRI	WI Owners	
6	Shiloh Federal #4 Section 17: SE/4 NW/4 T-16-S, R-29-E	40	LC-062996(b) HBP	USA 0.0290000	SunTex Resources, et al 1.0000000	Arthur C. Atkins Burton E. Atkins Estate George E. Atkins Jr. Rose Burton Atkins Featherstone Development Corp Cara Lynn Gant Hinkle Investment Company Phyllis Iles Estate Robert Iles Fred Lemon Jr. Pauline Nicholson Norwood Oil Company Fred Whitaker Paul G. White	Beach Exploration, Inc. Christopher K. Clark Fredrick Flint Herman KNG America, Inc. Edward C. Knox Louis M. Martinez Jr. Judith F. Oliphant Mike L. Shelton Suntex Resources Inc. Norman E. Wells Kevin Whelan	0.2902793 0.0148140 0.0444420 0.4778267 0.0148140 0.0148140 0.0148140 0.0740750 0.0244930 0.0148140 0.0148140 0.0244930 0.0148140 0.0148140
7	Iles Federal Section 17: E/2 SW/4, W/2 SE/4 Section 20: NE/4 NW/4, NW/4 NE/4 T-16-S, R-29-E	240	LC-046119(a) HBP	USA 0.0130000	Chase Oil Corporation 1.0000000	Chase Oil Corporation Paul Slayton Fred Lemon Jr. Pauline Nicholson Cara Lyn Gant Robert Iles Phyllis Iles Estate	Beach Exploration, Inc. KNG America, Inc.	0.3529575 0.6470425
8	Federal 19 Section 19: N/2 NE/4 T-16-S, R-29-E	80	NM-03361 HBP	USA 0.1250000	EOG Resources Inc. 1.0000000	Elizabeth Hammack Sandra Terry Susan Terry Barbara Frankensfield Robert Franklin Julie Calvart Ben Pior Estate Tena Williamson Sally Lanning Paul Hanger Sam E. Hilburn Robert E. Morris	Beach Exploration, Inc. KNG America, Inc.	0.3529575 0.6470425

Tract	Description	Gross Acres	Serial No. & Exp. Date	Royalty Owner	Lessee of Record	ORRU	WI Owners
9	Coastal Federal Section 19: SW/4 NE/4 T-16-S, R-29-E	40	NM-58033 HBP	USA 0.0210000	Coastal Oil & Gas Corp. 1.0000000	Alexandra C. Morris Chaparral Oil Inc. 0.1350000	Beach Exploration, Inc. KNG America, Inc. 0.3529575 0.6470425
10	Ryan Federal Section 19: SE/4 NE/4 T-16-S, R-29-E	40	NM-89878 HBP	USA 0.1250000	Exxon Corporation 1.0000000	Madison M. Hinkle Rolla R. Hinkle III Morris E. Schertz 0.0100000 0.0100000 0.0100000	Beach Exploration, Inc. KNG America, Inc. 0.3529575 0.6470425
11	M & W Federal Section 19: SE/4 NW/4 T-16-S, R-29-E	40	NM-55927 HBP	USA 0.0530000	Haile Petroleum 1.0000000	Merlyne V. Bergstrom Beverly J. Durham C R F Eckels Eckels Family Trust Marshall & Winston Inc. Janet C. Sower 0.0010000 0.0030000 0.0050000 0.0400000 0.0750000 0.0010000	Beach Exploration, Inc. Aline H. Amos Rosabelle Malone Bill G. Taylor Harvey R. Taylor Larry R. Troublefield 0.8100000 0.0100000 0.0100000 0.1300000 0.0200000 0.0200000
TOTAL FEDERAL ACRES		1080.00					
12	Rosewood State Section 18: Lots 2,3,4 T-16-S, R-29-E	76.60	V-616-3 HBP	State of NM 0.1666670	Beach Exploration 1.0000000	Broughton Petroleum Inc. John R. Carmony C. R. Devine C.B. & Nancy B. Ellis Trust Dan R. McGregor Steven J. Tucker 0.0180000 0.0070000 0.0037500 0.0080000 0.0070000 0.0100000	Hazel Sims Baldwin Beach Exploration, Inc. William N. Beach, LTD Brock Oil & Gas Corp. Broughton Petroleum Inc. Arnold M. Gaynor KNG America, Inc. G. K. McDonald J Norton Company S. Howard Norton Johnie P. Rose Estate Trust Judith L. Rose Estate Trust S & M Oil Operations Samin I. Sirmen Estate 0.0312500 0.0452930 0.0968750 0.1093750 0.5000000 0.0312500 0.0247070 0.0312500 0.0387500 0.0200000 0.0100000 0.0100000 0.0312500 0.0200000
TOTAL STATE ACRES		76.60					
TOTAL FEE ACRES		0.00					
TOTAL UNIT ACRES		1156.60					

EXHIBIT "B-1"

Tract - Working Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number

Tract - Working Interest

	1	2	3	4	5	6	7	8	9	10	11	12
	Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewooc State
Amos, Aline H.	0.03125000	0.03125000									0.01000000	0.03125000
Baldwin, Hazel Sims	0.20118572	0.20118572	0.35201197	0.35295740	0.37753216	0.29027927	0.35295740	0.35295740	0.35295740	0.35295740	0.81000000	0.02470700
Beach Exploration, Inc.	0.09687500	0.09687500										0.09687500
Beach, William N., LTD	0.09937500	0.09937500										0.10937500
Brock Oil & Gas Corp.												0.50000000
Broughton Petroleum Inc.	0.01000000	0.01000000										
Bucholtz, Wm. & Phyllis						0.01481400						
Clark, Christopher K.												
Gaynor, Arnold M.	0.03125000	0.03125000										0.03125000
Herman, Fredrick Flint						0.04444200						
KNG America, Inc.	0.36881428	0.36881428	0.64530943	0.64704260	0.60246784	0.47782673	0.64704260	0.64704260	0.64704260	0.64704260		0.04529290
Knox, Edward C.						0.01481400					0.01000000	
Malone, Rosabelle				0.02000000								
Marrs, Steve & Gail												
Martinez, Louis M. Jr.						0.01481400						
McDonald, G. K.	0.03125000	0.03125000										0.03125000
Norton, J Company	0.03875000	0.03875000										0.03875000
Norton, S. Howard	0.02000000	0.02000000										0.02000000
Olipphant, Judith F.						0.01481400						
Rose, Johnie P. Estate Trust	0.01000000	0.01000000										0.01000000
Rose, Judith L. Estate Trust	0.01000000	0.01000000										0.01000000
S & M Oil Operations	0.03125000	0.03125000										0.03125000
Shelton, Mike L.	0.02000000	0.02000000				0.07407500						0.02000000
Sirmen, Samin I. Estate												
Suntex Resources Inc.						0.02449300						
Taylor, Bill G.											0.13000000	
Taylor, Harvey R.											0.02000000	
Troublefield, Larry R.											0.02000000	
Walker, Barbara			0.00267860									
Wells, Norman E.						0.01481400						
Whelan, Kevin						0.01481400						

1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000

EXHIBIT "B-1"

WHLPSU - Working Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number

WHLPSU - Working Interest

Tract Number	1		2		3		4		5		6		7		8		9		10		11		12		
	Exxon Federal	'A' Federal	Exxon Federal	'A' Federal	Renee Federal	Big Mac Federal	Shiloh #3 Federal	Shiloh #4 Federal	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State											
Amos, Aline H.	0.00045563																								
Baldwin, Hazel Sims	0.01244231		0.01047635																						0.00004954
Beach Exploration, Inc.	0.31309491		0.06744611		0.06284537	0.00825878	0.02203763	0.00576270	0.07739780	0.01138345	0.00242670	0.00625315	0.03690623	0.00003917											
Beach, William N., LTD	0.03857116		0.03247667																						0.00015357
Brook Oil & Gas Corp.	0.03958239		0.03331478																						0.00017338
Broughton Petroleum Inc.	0.00061326		0.00335243																						0.00079262
Bucholtz, Wm. & Phyllis	0.00029409																								
Clark, Christopher K.	0.01244231		0.01047635																						0.00004954
Gaynor, Arnold M.	0.00088227																								
Herman, Fredrick Flint	0.50000000		0.12364242		0.11520832	0.01514002	0.03516776	0.00948595	0.14188588	0.02086817	0.00444863	0.01146329		0.00007180											
KNK America, Inc.	0.00029409																								
Knox, Edward C.	0.00045563																								
Malone, Rosabelle	0.00116746						0.00116746																		0.00045563
Marrs, Steve & Gall	0.00029409																								
Martinez, Louis M. Jr.	0.01244231		0.01047635																						0.00004954
McDonald, G. K.	0.01542846		0.01299067																						0.00006145
Norton, J Company	0.00796308		0.00670486																						0.00003170
Norton, S. Howard	0.00029409																								
Oliphant, Judith F.	0.00061326		0.00335243																						0.0000158E
Rose, Johnie P. Estate Trust	0.00398154		0.00335243																						0.0000158E
Rose, Judith L. Estate Trust	0.01244231		0.01047635																						0.00004954
S & M Oil Operations	0.00147056																								
Shelton, Mike L.	0.00122651		0.00670486																						0.00003170
Sirmen, Samin I. Estate	0.00048624																								
Suntex Resources Inc.	0.00592322																								0.00592322
Taylor, Bill G.	0.00091126																								0.00091126
Taylor, Harvey R.	0.00091126																								0.00091126
Troublefield, Larry R. S/P	0.00047822																								
Walker, Barbara	0.00029409				0.00047822																				
Wells, Norman E.	0.00029409																								
Whelan, Kevin	0.00029409																								

1.00000000 0.06132558 0.33524305 0.17853191 0.02339880 0.05837284 0.01985227 0.21928368 0.03225162 0.00687533 0.01771644 0.04556324 0.00158523

EXHIBIT "B-1"

Tract - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number

Tract - NRI

1	2	3	4	5	6	7	8	9	10	11	12
Amos, Aline H.											
Atkins, Arthur C.											
Atkins, Burton E. Estate				0.00208330	0.00208330					0.00822000	
Atkins, George E. Jr.				0.00208330	0.00208330						
Atkins, Rose Burton				0.00208330	0.00208330						
Baldwin, Hazel Sims				0.00625000	0.00625000						
Beach Exploration, Inc.	0.02618750	0.02504530									0.02447917
Beach Exploration, Inc.	0.16859963	0.16902512	0.31228171	0.29107730	0.22380532	0.29524883	0.28207179	0.29789605	0.29824900	0.66582000	0.01935588
Beach, William N., LTD	0.08118120	0.07763750									0.07588554
Bergstrom, Merlyne V.										0.00100000	
Brock Oil & Gas Corp.	0.08327630	0.07964310									0.0856770E
Broughton Petroleum Inc.											0.4059163C
Brown, Cleo & Sue		0.00037500									
Bucholtz, Wm. & Phyllis	0.00838000	0.00801440									
Calvart, Julie							0.01875000				0.0070000C
Carmony, John R.											
Chaparral Oil, Inc.								0.13500000			
Chase Oil Corporation						0.10000000					
Clark, Christopher K.					0.01142159						
Davey, Margaret Irene	0.00900000	0.00900000									
Devine, C. R.		0.00750000									0.0037500C
Durham, Beverly J.											
Eckels, C. R. F.											
Eckels Family Trust											
Ellis, C. B. & Nancy B. Trust											
Exxon Corporation	0.07500000	0.05000000		0.00625000	0.00625000						0.0080000C
Featherstone Development Corp											
Frankenfield, Barbara							0.00625000				
Franklin, Robert							0.00437500				
Gant, Cara Lynn		0.00234380		0.00117190	0.00117190	0.00234380					
Gates, John W.	0.00250000	0.00250000									
Gaynor, Arnold M.	0.02618750	0.02504530									0.02447917
Hammack, Elizabeth											
Hanger, Paul											
Herman, Fredrick Flint					0.03426479						
Hilburn, Sam E.							0.00437500				
Hinkle Investment Company				0.00625000	0.00625000						
Hinkle, Madison M.									0.01000000		
Hinkle, Rolla R. III									0.01000000		
Iles, Phyllis Estate											
Iles, Robert		0.00468750		0.00234380	0.00234380	0.00468750					
K & C Production Co. Inc.		0.00234380		0.00117190	0.00117190	0.00234380					
Kirkpatrick, Mitchell Robert											
Kirkpatrick, T. A.											
Kirkpatrick, William H.											
KNG America, Inc.	0.30906637	0.30985738	0.57247581	0.46450270	0.36840441	0.54125107	0.51709488	0.54610395	0.54675100		0.03547951
Knox, Edward C.					0.01142159						

EXHIBIT "B-1"

Tract - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number

Tract - NRI

Whelan, Kevin
Whitaker, Fred
White, Paul G.
Williams, Annie L. Kirkpatrick
Williamson, Tena

1	2	3	4	5	6	7	8	9	10	11	12
Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Iles Federal	Federal 19	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State
					0.01142159						
				0.00625000	0.00625000						
0.00900000	0.00900000			0.05000000	0.05000000						
							0.00520833				

1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000 1.00000000

EXHIBIT "B-1"
WILPSU - Net Revenue Interest

Beach Exploration, Inc.
 West High Lonesome Pentose Sand Unit
 Eddy County, New Mexico

Tract Number	1		2		3		4		5		6		7		8		9		10		11		12	
	Exxon	Federal 'A'	Exxon	Federal	Rence	Federal	Big Mac	Federal	Shiloh	Federal #3	Shiloh	Federal #4	Iles	Federal	Federal	Federal	Coastal	Federal	Ryan	Federal	M&W	Federal	Rosewood	State
Amos, Aline H.	0.00037453																				0.00037453			
Atkins, Arthur C.	0.00016297								0.00012161		0.00004136													
Atkins, Burton E. Estate	0.00016297								0.00012161		0.00004136													
Atkins, George E. Jr.	0.00016297								0.00012161		0.00004136													
Atkins, Rose Burton	0.00048891								0.00036483		0.00012408													
Baldwin, Hazel Sims	0.01004103																						0.00003881	
Beach Exploration, Inc.	0.26340248								0.05575225		0.00767241												0.00003068	
Beach, William N., LTD	0.00497848								0.01699101		0.00444304											0.00004556		
Bergstrom, Merlyne V.	0.0004556																						0.00013582	
Brock Oil & Gas Corp.	0.03194258																						0.00064347	
Broughton Petroleum Inc.	0.00064347																							
Brown, Cicc & Suc	0.00006695								0.00006695															
Bucholtz, Wm. & Phyllis	0.00320068																							
Bucholtz, Wm. & Phyllis	0.00051391																							
Calvart, Julie	0.00060472																							
Carmony, John R.	0.00235780																							
Chaparral Oil, Inc.	0.00092817																							
Chase Oil Corporation	0.02192837																							
Clark, Christopher K.	0.00022674																							
Clark, Christopher K.	0.00022674																							
Davey, Margaret Irene	0.00055193																							
Davine, C. R.	0.00252027																							
Durham, Beverly J	0.00013669																							
Eckels, C. R. F.	0.00022782																							
Eckels Family Trust	0.00182253																							
Ellis, C. B. & Nancy B. Trust	0.00268194																							
Exxon Corporation	0.02136157																							
Exxon Corporation	0.00459942																							
Featherstone Development Corp	0.00048891																							
Frankenfield, Barbara	0.00020157																							
Franklin, Robert	0.00014110																							
Gant, Cara Lynn	0.00102407																							
Gates, John W	0.00099142																							
Gaynor, Arnold M.	0.01004103																							
Hammack, Elizabeth	0.00014110																							
Hanger, Paul	0.00016798																							
Herman, Fredrick Flint	0.00068023																							
Hilburn, Sam E.	0.00014110																							
Hinkle Investment Company	0.00048891																							
Hinkle, Madison M.	0.00017716																							
Hinkle, Holla R. III	0.00017716																							
Hinkle, Phyllis Estate	0.00204810																							
Iles, Flobert	0.00102407																							
K & C Production Co. Inc.	0.00043873																							
Kirkpatrick, Mitchell Robert	0.00356912																							
Kirkpatrick, I A	0.00356912																							
Kirkpatrick, William H.	0.00356912																							
KNOG America, Inc.	0.42239154																							
Knox, Edward C	0.00022674																							

EXHIBIT "B-1"

WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	Total	1		2		3		4		5		6		7		8		9		10		11		12		
		Exxon Federal 'A'	Exxon Federal	Renee Federal	Big Mac Federal	Shiloh Federal #3	Shiloh Federal #4	Shiloh Federal	Coastal Federal	Ryan Federal	M&W Federal	Rosewood State														
Lanning, Sally	0.00016798																									
Lansford, Carlyn & E. Treece	0.00004783			0.00004783																						
Lemon, Fred Jr.	0.00651867			0.00167374				0.00054725					0.00018612		0.00411157											
Matone, Rosabelle	0.00037453																									
Marrs, Steve & Gail	0.00090011							0.00090011																		
Marshall & Winston Inc.	0.00341724																									
Martinez, Louis M. Jr.	0.00022674												0.00022674													
McClellan Oil Corporation	0.00721138			0.00662641	0.00058497																					
McClellan, Jack L. & Barbara	0.00078649			0.00066949	0.00011699																					
McClellan, Lisa	0.00014373			0.00013390	0.00000983																					
McClellan, Mark & Paula	0.00014373			0.00013390	0.00000983																					
McDonald, G. K.	0.01004103	0.00160596	0.00839626																							0.00003881
McGregor, Dan R.	0.00235780		0.00234670																							0.00001110
Morris, Alexandra	0.00007055																0.00007055									
Morris, Robert E.	0.00007055																0.00007055									
Nicholson, Pauline	0.00409620			0.00167374				0.00027362					0.00009306		0.00205578											
NM, State of	0.00026421																									
Norton, J Company	0.01245055	0.00199140	0.01041104																							0.00026421
Norton, S. Howard	0.00642616	0.00102782	0.00537351																							0.00004812
Norwood Oil Company	0.00782251							0.00583728					0.00198523													0.00002484
Oliphant, Judith F.	0.00022674												0.00022674													
Pior, Ben Estate	0.00016798																0.00016798									
Richardson, Randolph M.	0.000167374			0.00167374																						
Roberts, Suzanne C. & Richard	0.00014349			0.00013390	0.00000959																					
Rose, Johnie P. Estate Trust	0.00321308	0.000051391	0.00268676																							0.00001242
Rose, Judith L. Estate Trust	0.00321308	0.000051391	0.00268676																							0.00001242
S & M Oil Operations	0.01004103	0.00160596	0.00839626																							0.00003881
Schertz, Morris E.	0.00017716																									
Setterlund, Sam L.	0.00099142	0.00015331	0.00083811																							
Shelton, Mike L.	0.00113380												0.00113380													
Sirmen, Samin I. Estate	0.00642616	0.00102782	0.00537351																							0.00002484
Slayton, Paul	0.00508234			0.00223165																						
Sower, Janet C.	0.00004556																									
Suntex Resources Inc.	0.00037489																									
Taylor, Bill G.	0.00486889												0.00037489													
Taylor, Deloris & Virgil	0.00013390			0.00013390																						
Taylor, Harvey R.	0.00074906																									
Terry, Sandra	0.00020157																									
Terry, Susan	0.00020157																									
The Toles Company	0.00095641			0.00095641																						
Troublefield, Larry R. S/P	0.00074906																									
Tucker, David G.	0.00167622		0.00167622																							
Tucker, Steven J.	0.00169207		0.00167622																							
USA	0.03140979	0.00226905	0.01240399	0.00232091	0.00169281	0.00057572	0.00285069	0.00403145	0.00014438	0.00221455	0.00074906	0.00020157	0.00020157	0.00020157	0.0004556	0.00486889	0.00074906	0.000221455	0.00241485	0.0000158E						
Walker, Barbara	0.00042424			0.00042424																						
Wells, Norman E.	0.00022674												0.00022674													

EXHIBIT "B-1"

WHLPSU - Net Revenue Interest

Beach Exploration, Inc.
West High Lonesome Penrose Sand Unit
Eddy County, New Mexico

Tract Number	1 Exxon Federal 'A'	2 Exxon Federal	3 Renee Federal	4 Big Mac Federal	5 Shiloh Federal #3	6 Shiloh Federal #4	7 Iles Federal	8 Federal 19	9 Coastal Federal	10 Ryan Federal	11 M&W Federal	12 Rosewood State
WHLPSU - NRI	Total											
Whelan, Kevin	0.00022674					0.00022674						
Whitaker, Fred	0.00048891				0.00036483	0.00012408						
Ishibashi, Gary	0.00391126				0.00291864	0.00099261						
Williams, Annie L. Kirkpatrick	0.00356912	0.00301719										
Williamson, Tena	0.00016798						0.00016798					

1.00000000 0.06132558 0.33524305 0.17853191 0.02339880 0.058837284 0.01985227 0.21928368 0.03225162 0.00687533 0.01771644 0.04556324 0.00158523

EXHIBIT "C"

TRACT PARTICIPATION

WEST HIGH LONESOME PENROSE SAND UNIT
Eddy County, New Mexico

UNITIZATION PARAMETER: Ultimate Primary Recovery

<u>TRACT</u>	<u>LEASE NAME</u>	<u>OPERATOR</u>	<u>ULTIMATE RECOVERY (BO)</u>	<u>TRACT PARTICIPATION (%)</u>
1	Exxon Federal "A"	Beach Expl.	34,082	6.132558%
2	Exxon Federal	Beach Expl.	186,313	33.524305%
3	Renee Federal	Beach Expl.	99,220	17.853191%
4	Big Mac Federal	Beach Expl.	13,004	2.339880%
5	Shiloh Federal #3	Beach Expl.	32,441	5.837284%
6	Shiloh Federal #4	Beach Expl.	11,033	1.985227%
7	Iles Federal	Beach Expl.	121,868	21.928368%
8	Federal 19	Beach Expl.	17,924 *	3.225162%
9	Coastal Federal	Beach Expl.	3,821	0.687533%
10	Ryan Federal	Beach Expl.	9,846	1.771644%
11	M&W Federal	H&S Oil LLC	25,322	4.556324%
12	Rosewood State	Beach Expl.	881	0.158523%
	TOTAL		555,755	100.00000%

* Includes 13,880 barrels of reserves for undrilled interior location on west half of the Federal 19 lease.
(Ultimate primary for the eight surrounding wells = 83,809/ 8 wells = 13,880 BO)