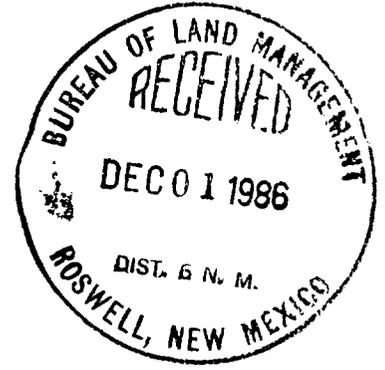
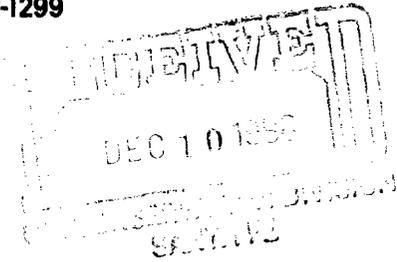


Case # 8786



UNIT AGREEMENT
FOR THE
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO



JERRY W. LONG
CONSULTANT

December 9, 1986

State of New Mexico
Department of Energy and Minerals
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Re: THE EASTLAND OIL COMPANY
POWER GRAYBURG UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

Gentlemen:

In compliance with Order R-8164, we submit herewith an executed counterpart of the unit agreement and three copies of the Plan of Development for referenced unit. Also, enclosed is a copy of the Certification-Determination, indicating Bureau of Land Management approval of the unit agreement on December 8, 1986, effective January 1, 1987.

Please indicate your acceptance of the Initial Plan of Development by your approval in the space provided. Send one approved copy to The Eastland Oil Company, P. O. Drawer 3488, Midland, Texas 79702 and one approved copy to me at the letterhead address.

Sincerely yours,

JERRY W. LONG
Agent for:
THE EASTLAND OIL COMPANY

1c: The Eastland Oil Company

JWL/bll

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C., secs. 181, et seq., and delegated to the District Manager, Bureau of Land Management, I do hereby:

- A. Approve the attached agreement for the development and operation of the Power Grayburg Unit area, State of New Mexico.
- B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.
- C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

B/T. Kreagen

Noting _____
District Manager,
Bureau of Land Management

Date

12/8/86

NMO61P35-87U415
Contract No.

UNIT AGREEMENT
FOR THE
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

UNIT AGREEMENT
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)
Exhibit "B" (Schedule of Ownership)
Exhibit "C" (Schedule of Tract Participation)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 27th day of JUNE, 1986, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; 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 427.44 acres, more or less, in Eddy County, New Mexico.

(b) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.

(c) "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.

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

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

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

(g) "Unitized Formation" shall mean that interval underlying the Unit Area, the vertical limits of which extend from an upper limit described as 450 feet above mean sea level or at the top of the Grayburg formation, whichever is higher, to a lower limit at the base of the Grayburg formation; the geologic markers having been previously found to occur at 3,252 feet and 3,536 feet, respectively, in The Eastland Oil Company's No. 1 Arco-Federal well (located at 660 feet FNL and 810 feet FWL of Section 5, Township 18 South, Range 31 East, Eddy County, New Mexico) as recorded on the Schlumberger Sidewall Neutron Porosity Log taken on August 11 and 12, 1970, said log being measured from a kelly drive bushing elevation of 3,694 feet above sea level.

(h) "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.

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

(j) "Tract Participation" is defined as the percentage of participation shown on Exhibit "C" for allocating Unitized Substances to a Tract under this Agreement.

(k) "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.

(l) "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.

(m) "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.

(n) "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.

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

(p) "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, Power Grayburg Unit, Eddy County, New Mexico".

(q) "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.

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

(s) "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.

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

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

(v) "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.

(w) "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.

(x) "Effective Date" is the date determined in accordance with Section 24.

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" attached hereto shows the Tract Participation of each Tract in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown 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 any 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. Not less than four (4) copies of such revision 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., 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 the

interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment or 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., 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 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 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 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(g) of this Agreement.

SECTION 6. UNIT OPERATOR. The Eastland Oil Company 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 interests are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

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

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the A.O., unless a new Unit Operator shall have taken over and the assumed 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 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 the 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 therein 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 A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the A.O. may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three (3) 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 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 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 substance for secondary recovery or enhanced recovery purposes in accordance with a Plan of Operation approved by the Working Interest Owners, the A.O. 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. and the Division concurrently with the filing of this Unit Agreement for final approval. Said initial Plan of Operations and all revisions thereof shall be as complete and adequate as the A.O. 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., 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 "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 "C" was determined in accordance with the following formula:

$$\text{Tract Participation} = 90\% \frac{A}{B} + 10\% \frac{C}{D}$$

A = the Tract Cumulative Oil Production from the Unitized Formation as of December 31, 1984

B = the Unit Total Cumulative Oil Production from the Unitized Formation as of December 31, 1984

C = the surface acres in each Tract in the Unit Area as recorded by the United States Public Land Surveys

D = the summation of the surface acres in all Tracts in the Unit Area

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 Participations which would have been attributed to the nonsubscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the 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 "C", and upon approval thereof by 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 A.O.

SECTION 15. 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.) 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 "C". 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 productive 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.

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 (1) 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 "C" shall be revised by the Unit Operator; and the revised Exhibit "C", upon approval by 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 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 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 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 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 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 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 interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on 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 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 and the A.O., 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 Federal lands or leases, no payments of funds due the United States shall be withheld, but such funds shall be deposited as directed by the A.O. 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 the Working Interest Owners shall either:

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

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

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 shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal 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 A.O., or his duly authorized representative, 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) 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, than 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. and the Commission.

If this Agreement does not become effective on or before January 1, 1987, it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy-five percent (75%); and at least seventy-five percent (75%) of such Working Interest Owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of 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 A.O. by the 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 provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any 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), as amended, 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 Department and the Division, and to appeal from any order issued under the rules and regulations of 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 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 RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, each party hereto covenants that it

will not resort to any action to partition the Unitized Land or the Unit Equipment.

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

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

SECTION 32. NONJOINER AND SUBSEQUENT JOINER. 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 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 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 Federal land is involved, such joinder must be approved by the 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 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 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 any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

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

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

If, as of the Effective Date hereof, any Tract is over-produced 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.

EFFECTIVE as of the day and year first above written.

ATTEST:

Mark H. Ingram
Mark H. Ingram, Secretary

THE EASTLAND OIL COMPANY

By: George D. Dial
Vice-President, Production

Date of Execution:

June 27, 1986

ATTEST:

ALPS OIL COMPANY

By: W. Hart

Date of Execution:

July 10, 1986

G. H. DOELLING, JR.

By: G. H. Doelling, Jr.

Date of Execution:

7-21-86

GEORGE A. DONNELLY, JR.

By: George A. Donnelly, Jr.

Date of Execution:

July 7, 1986

GEORGE A. DONNELLY, JR.,
TRUSTEE

By: George A. Donnelly, Jr.

Date of Execution:

July 2, 1986

GEORGE A. DONNELLY, JR.,
TRUSTEE

By: George A. Donnelly, Jr.

Date of Execution:

July 2, 1986

GEORGE A. DONNELLY, JR.,
TRUSTEE

By: George A. Donnelly, Jr.

Date of Execution:

July 2, 1986

RICHARD DONNELLY

By: Richard Donnelly

Date of Execution:

July 2, 1986

MARY L. HOLBROOK

By: Mary L. Holbrook

Date of Execution:

7-9-86

ATTEST:

Charles G. Rice

MARSHALL & WINSTON, INC.

By: William S. Marshall

Date of Execution:

7/22/86

WILLIAM S. MARSHALL

By: William S. Marshall

Date of Execution:

7/22/86

PEGGY DONNELLY McCONNELL

By: _____

Date of Execution:

JACK L. RUSSELL

By: *Jack L. Russell*

Date of Execution:

7/7/06

THE STATE OF TEXAS }
COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this day of July 2, 1986, by George D. Neal, Vice President Production, for THE EASTLAND OIL COMPANY, a Texas corporation.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF ECTOR }

The foregoing instrument was acknowledged before me this day of July 10, 1986, by R. S. Searles, Jr., for ALPS OIL COMPANY, a Texas ~~corporation.~~ partnership.

Janie Stevens
Notary Public in and for
Midland County, Texas
Ector
Janie Stevens

My commission expires:
10-25-89

THE STATE OF TEXAS }
COUNTY OF Midland }

The foregoing instrument was acknowledged before me this day of July 2, 1986, by GEORGE A. DONNELLY, JR.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this
day of *July 2*, 198*6*, by GEORGE A. DONNELLY, JR.,
TRUSTEE.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this
day of *July 2*, 198*6*, by GEORGE A. DONNELLY, JR.,
TRUSTEE.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this
day of *July 2*, 198*6*, by GEORGE A. DONNELLY, JR.,
TRUSTEE.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this day of *July 2*, 198*6*, by RICHARD DONNELLY.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this day of *July 9*, 198*6*, by MARY L. HOLBROOK.

Mary E. Hughes **Mary E. Hughes**
Notary Public in and for
Midland County, Texas

My commission expires:
12-12-88

THE STATE OF TEXAS }
COUNTY OF *Midland* }

The foregoing instrument was acknowledged before me this day of *July 22*, 198*6*, by *William S. Marshall*, for MARSHALL & WINSTON, INC. a Texas corporation.



GINA L. HICKMAN
Notary Public, State of Texas
My Commission Expires October 2, 1988

Gina L. Hickman
Notary Public in and for
Midland County, Texas

My commission expires:

EXHIBIT "C" SUMMARY
 ATTACHED TO AND PART OF THE UNIT OPERATING AGREEMENT
 POWER GRAYBURG UNIT
 LODDY COUNTY, NEW MEXICO

WORKING INTEREST OWNER	TRACT NUMBER	PERCENT UNIT PARTICIPATION
Alps Oil Company	1a	0.116946
	1b	2.968660
	2	2.972198
	3	6.066744
	4	<u>1.011594</u>
		13.136142
G.H. Doelling, Jr.	1a	0.116946
	2	2.972198
	3	6.066743
	4	<u>1.011594</u>
		10.167481
George A. Donnelly, Jr.	1a	0.116946
	1b	2.968660
	2	2.972198
	3	6.066743
	4	<u>1.011594</u>
	13.136141	
Richard Donnelly	1a	0.058473
	1b	1.484330
	2	1.486099
	3	3.033372
	4	<u>0.505797</u>
	6.568071	
George A. Donnelly, Jr Trustee of the Trust for George A. Donnelly, III	4	0.337198
George A. Donnelly, Jr. Trustee of the Trust for Marion Jan O'Neill	4	0.337198
George A. Donnelly, Jr. Trustee of the Trust for Robert R. Donnelly	4	0.337198

EXHIBIT "C" SUMMARY
 ATTACHED TO AND PART OF THE UNIT OPERATING AGREEMENT
 POWER GRAYBURG UNIT
 EDDY COUNTY, NEW MEXICO

WORKING INTEREST OWNER	TRACT NUMBER	PERCENT UNIT PARTICIPATION
The Eastland Oil Company	1a	0.175420
	1b	4.452989
	2	4.458297
	3	9.100115
	4	<u>1.517391</u>
		19.704212
Mary L. Holbrook	1a	0.058473
	1b	1.484330
	2	1.486099
	3	3.033372
	4	<u>0.505797</u>
		6.568071
Marshall & Winston, Inc.	1a	0.029237
	2	0.743049
	3	1.516686
	4	<u>0.252898</u>
William S. Marshall	1a	0.029237
	2	0.743049
	3	1.516686
	4	<u>0.252898</u>
Peggy Donnelly McConnell	1a	0.116946
	1b	2.968660
	2	2.972198
	3	<u>6.066744</u>
Jack L. Russell	1a	0.116946
	1b	2.332519
	2	2.972198
	3	6.066744
	4	<u>1.011593</u>
		12.500000

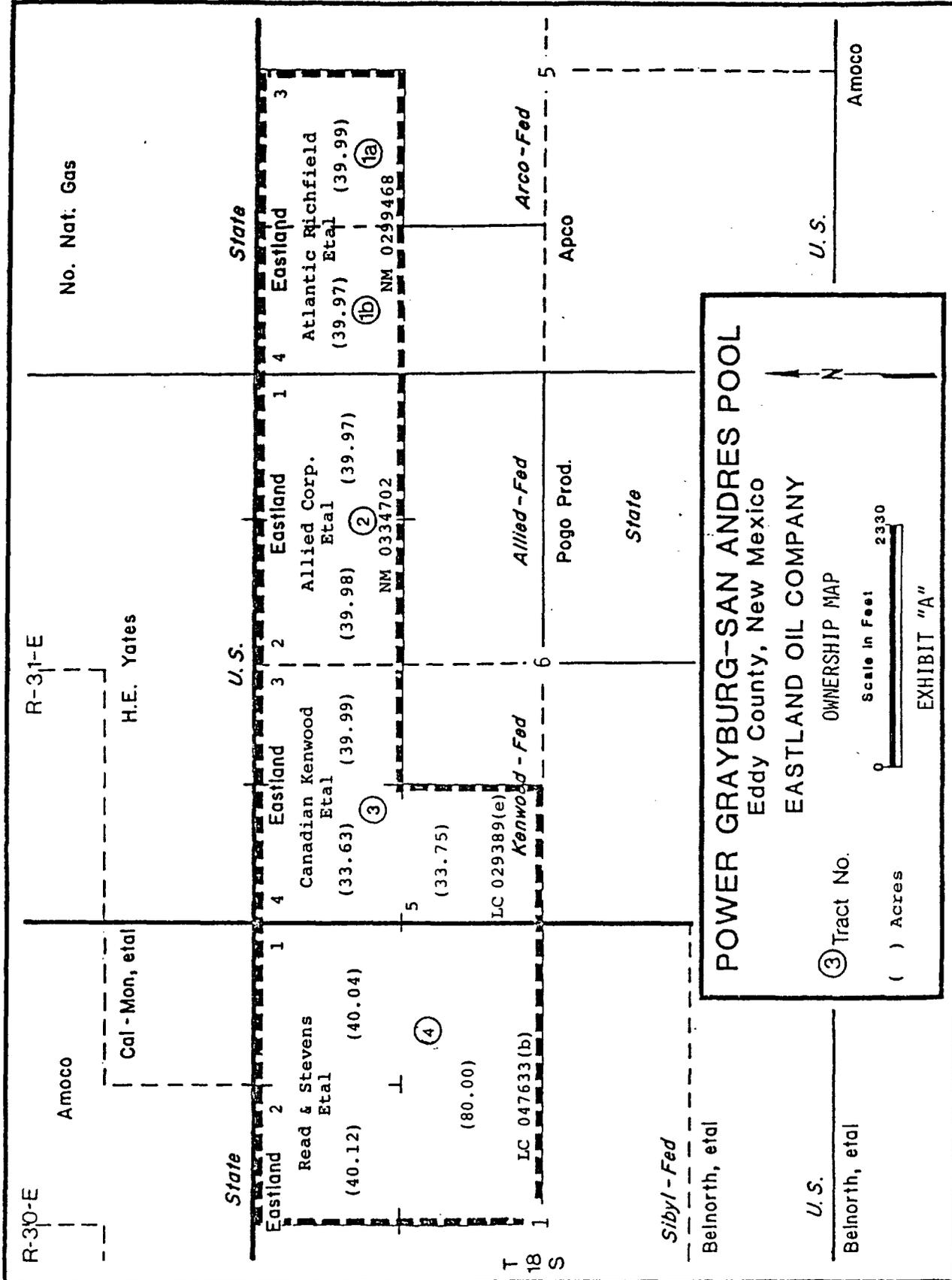


EXHIBIT "B"

UNIT AGREEMENT

SCHEDULE SHOWING ALL LAND AND LEASES

WITHIN THE POWER GRAYBURG UNIT

EDDY COUNTY, NEW MEXICO

ALL FEDERAL LANDS

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
T. 18S., R. 31E.							
1a	Sec. 5: Lot 3	39.99	NM0299468 HBP	U.S. 12.5%	Atlantic Richfield Company 100%	Atlantic Richfield Company 6.25%	The Eastland Oil Company 18.750 Alps Oil Company 12.500 G.H. Doelling, Jr. 12.500 George A. Donnelly, Jr. 12.500 Richard Donnelly 6.250 Mary L. Holbrook 6.250 Marshall & Winston, Inc. 3.125 William S. Marshall 3.125 Peggy Donnelly McConnell 12.500 Jack L. Russell 12.500
1b	Sec. 5: Lot 4	39.97	NM0299468 HBP	U.S. 12.5%	Atlantic Richfield Company 100%	Atlantic Richfield Company 6.25%	The Eastland Oil Company 23.863630 Alps Oil Company 15.909090 George A. Donnelly, Jr. 15.909090 Richard Donnelly 7.954550 Mary L. Holbrook 7.954550 Peggy Donnelly McConnell 15.909090 Jack L. Russell 12.500000

EXHIBIT "B"

UNIT AGREEMENT

SCHEDULE SHOWING ALL LAND AND LEASES

WITHIN THE POWER GRAYBURG UNIT

EDDY COUNTY, NEW MEXICO

ALL FEDERAL LANDS

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
T.18S., R.31E.							
2	Sec. 6: Lots 1, 2	79.95	NM0334702 HBP	U.S. 12.5%	Union Texas Petroleum Corporation 100%	Union Texas Petroleum Corporation 7.5%	The Eastland Oil Company 18.750 Alps Oil Company 12.500 G.H. Doelling, Jr. 12.500 George A. Donnelly, Jr. 12.500 Richard Donnelly 6.250 Mary L. Holbrook 6.250 Marshall & Winston, Inc. 3.125 William S. Marshall 3.125 Peggy Donnelly McConnell 12.500 Jack L. Russell 12.500
					Pearson-Sibert Oil Co. 1.33333%		
					A.F. Gilmore Company 1.33333%		
					E.B. Hall 0.66667%		
					Hallbergen & Company 0.66667%		
					Robert D. Fitting 1.00000%		
3	Sec. 6: Lots 3, 4, 5	107.37	LC029389(e)	U.S. Schedule D	Canadian Kenwood Company 93.75%	Canadian Kenwood Company 11.6625%	The Eastland Oil Company 18.750 Alps Oil Company 12.500 George A. Donnelly, Jr. 12.500 Richard Donnelly 6.250 Mary L. Holbrook 6.250 Marshall & Winston, Inc. 3.125 William S. Marshall 3.125 Peggy Donnelly McConnell 12.500 Jack L. Russell 12.500
					T.R. Parker 6.75%	William G. Parker, Nancy Parker Strong & Sylvia S. Voorhies Tr U/W/O Tom R. Parker 0.84375%	

EXHIBIT "B"

UNIT AGREEMENT

SCHEDULE SHOWING ALL LAND AND LEASES

WITHIN THE POWER GRAYBURG UNIT

EDDY COUNTY, NEW MEXICO

ALL FEDERAL LANDS

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NO. EXP. DATE	BASIC ROYALTY	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
T. 18S., R. 31E.							
4	Sec. 1: Lots 1,2 S/2NE/4	160.16	LC047633(b) HBP	U.S. Schedule D	Read & Stevens, Inc 100%	Sibyl Vivian Perry and Richard L. Perry 6.25	Read & Stevens, Inc. 0.000000 The Eastland Oil Company 18.750000 Alps Oil Company 12.500000 G.H. Doelling, Jr. 12.500000 George A. Donnelly, Jr. 12.500000 George A. Donnelly, Jr. 4.166667 Trustee of the Trust for George A. Donnelly, III 4.166667 George A. Donnelly, Jr. Trustee of the Trust for George A. Donnelly, Jr. Marion Jan O'Neill George A. Donnelly, Jr. Trustee of the Trust for Robert R. Donnelly 4.166666 Richard Donnelly 6.250000 Mary L. Holbrook 6.250000 Marshall & Winston, Inc. 3.125000 William S. Marshall 3.125000 Jack L. Russell 12.500000

RECAPITULATION: 5 Tracts 4 Federal Leases 427.44 Acres 100% Federal

EXHIBIT "C"

UNIT AGREEMENT

SCHEDULE OF TRACT PARTICIPATION

THE EASTLAND OIL COMPANY

POWER GRAYBURG UNIT

EDDY COUNTY, NEW MEXICO

TRACT NO.	TRACT ACRES	ACRES %	TRACT CUM. OIL	PERCENT CUMULATIVE	10% ACRES	90% CUM.	TRACT PART.%
1a	39.99	9.355699	0	0.000000	0.935570	0.000000	0.935570
1b	39.97	9.351020	88034	19.694495	0.935102	17.725046	18.660148
2	79.95	18.714380	108805	24.341272	1.870438	21.907145	23.777583
3	107.37	25.119315	228575	51.135576	2.511931	46.022018	48.533949
4	160.16	37.469586	21584	4.828657	3.746959	4.345791	8.092750
	427.44	100.000000	446998	100.000000	10.000000	90.000000	100.000000

TRACT PARTICIPATION: 90% Cumulative to 1-1-85 + 10% Acreage

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Operating Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A" and "B", attached to and made a part of said Unit Agreement, identify the separately owned tract which may become a part of the Power Grayburg Unit as initially constituted; and

WHEREAS, each of the undersigned represents that it is a Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest of interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date: Oct. 22, 1986

ATLANTIC RICHFIELD COMPANY

BY: *M. S. Giglio* BK
RTB
ATTORNEY IN FACT

THE STATE OF TEXAS §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 22nd day of October, 1986, by M. S. GIGLIO, Attorney-in-Fact for Atlantic Richfield Company, a Delaware corporation.

Barbara Kirby

Barbara Kirby
[Print name]

My Commission Expires:
4-24-90

Notary Public for State of Texas

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Operating Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A" and "B", attached to and made a part of said Unit Agreement, identify the separately owned tract which may become a part of the Power Grayburg Unit as initially constituted; and

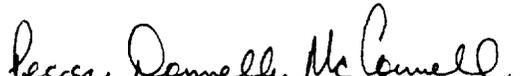
WHEREAS, each of the undersigned represents that it is Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest or interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date: 7-11-86

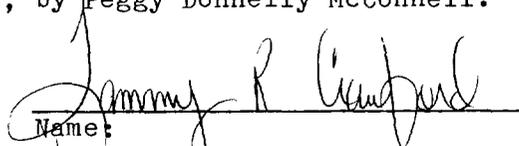

Peggy Donnelly McConnell

State of Texas
County of Avant

The foregoing instrument was acknowledged before me this 11 day of 7, 1986, by Peggy Donnelly McConnell.

My Commission Expires:

1-20-90


Name: _____
Notary Public in and for
Avant County, Texas

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Operating Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A" and "B", attached to and made a part of said Unit Agreement, identify the separately owned tract which may become a part of the Power Grayburg Unit as initially constituted; and

WHEREAS, each of the undersigned represents that it is Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest or interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date: August 1, 1986


John F. Partridge, Jr.

State of ~~Texas~~ Colorado
County of Arapahoe

The foregoing instrument was acknowledged before me this 1st day of August, 1986, by John F. Partridge, Jr..

My Commission Expires:

Brenda K. Maynard
Name:
Notary Public in and for
Arapahoe County, ~~Texas~~ Colorado

3/29/89

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Operating Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A" and "B", attached to and made a part of said Unit Agreement, identify the separately owned tract which may become a part of the Power Grayburg Unit as initially constituted; and

WHEREAS, each of the undersigned represents that it is a Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest of interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date:

ATTEST:
Corporation

UNION TEXAS PETROLEUM CORPORATION

P. E. Allison
Asst Secretary

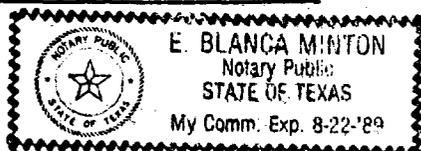
R. D. Erskine
By: R. D. ERSKINE
VICE PRESIDENT - U. S. PRODUCTION

State Of Texas
County of Harris

The foregoing instrument was acknowledged before me this day 6th of August, 1986, by R. D. Erskine, Vice President, for Union Texas Petroleum Corporation, a Delaware corporation.

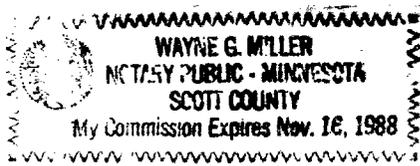
My Commission Expires:

E. Blanca Minton
Name:
Notary Public in and for
the State of Texas



State of Minnesota
County of Scott

The foregoing instrument was acknowledged before me this day of August 11, 1986, by McDonald Winton, General Partner, for Canadian Kenwood Company, a Minnesota Partnership.



Wayne G. Miller

Notary Public in and for
Scott County, Minnesota

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

WHEREAS, each of the undersigned owners of a working interest or interests hereby acknowledges receipt of a true and correct copy of said Unit Agreement, and a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Operating Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Operating Agreement; and

WHEREAS, Exhibits "A" and "B", attached to and made a part of said Unit Agreement, identify the separately owned tract which may become a part of the Power Grayburg Unit as initially constituted; and

WHEREAS, each of the undersigned represents that it is Royalty Owner or Working Interest Owner, or both, as defined in said Unit Agreement, in one or more of the Tracts identified by said Exhibits; and

WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest or interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date: 6/27/86

Nancy Parker Strong

Sylvia S. Voorhies
For T.R. Parker Estate

William G. Parker

State of ~~Texas~~ Oregon
County of Josephine

The foregoing instrument was acknowledged before me this 18th day of July, 1986, by Nancy P. Strong, Sylvia S. Voorhies, and William G. Parker.

My Commission Expires:

Kathleen Johnson
Name:

Notary Public in and for
Josephine County, ~~Texas~~ Oregon

February 4, 1988

RATIFICATION OF AGREEMENTS ENTITLED
"UNIT AGREEMENT" AND "UNIT OPERATING AGREEMENT"
POWER GRAYBURG UNIT
EDDY COUNTY, NEW MEXICO

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, each of the undersigned owners of the royalty interests hereby acknowledges receipt of a true and correct copy of that certain agreement dated June 27, 1986, entitled "Unit Agreement, Power Grayburg Unit, Eddy County, New Mexico," which said agreement is hereinafter referred to as the Unit Agreement; and

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WHEREAS, each undersigned Royalty Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and each undersigned Working Interest Owner, being familiar with the contents thereof, desires to ratify and confirm said Unit Agreement and said Unit Operating Agreement.

NOW THEREFORE, each of the undersigned who is the owner of a royalty interest or interests only does hereby ratify and confirm said Unit Agreement, and each of the undersigned who is the owner of a working interest or interests only or the owner of both a working interest or interests and royalty interest or interests does hereby ratify and confirm said Unit Agreement and said Unit Operating Agreement, each owner with respect to all of its interests in all of the separately owned Tracts identified by said Exhibits, thereby becoming a party thereto.

IN WITNESS WHEREOF, each of the undersigned parties has executed this instrument on the date set forth below opposite his signature.

Date: June 27, 1986

Sibyl Vivian Perry
Richard Perry
Sibyl Vivian Perry
Richard Perry

State of ~~Texas~~
County of Brewer

The foregoing instrument was acknowledged before me this 27th day of June, 1986, by

My Commission Expires:

March 4, 1989

Laura A. Green
Name: LAURA A. GREEN
Notary Public in and for
Brewer County, Texas