

ADDENDUM TO UNIT AGREEMENT AND
UNIT OPERATING AGREEMENT FOR THE
CHAVEROO SAN ANDRES UNIT,
CHAVES COUNTY, NEW MEXICO

The provisions of this addendum to the Unit Agreement and the Unit Operating Agreement for the Chaveroo San Andres Unit, Chaves County, New Mexico, shall apply only to those Working Interest Owners who do not sign said agreements on or before July 1, 1989 (hereinafter sometimes referred to as "parties"):

1. Proposed Operations: Should the Unit Operator, with the required approval of the Working Interest Owners pursuant to the Unit Operating Agreement, desire to make expenditures to commence secondary recovery operations within the Unit Area, the Operator shall give the parties written notice of the proposed operation, specifying the work to be performed and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the Unit Operator whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, the Unit Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days, actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way and easements) or appropriate equipment, or to complete title examination or curative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if the Unit Operator with the approval of the Working Interest Owners pursuant to the Unit Operating Agreement, still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Paragraph 1 above elects not to participate in the proposed operation fails to reply within the time period set forth in Paragraph 1 above, then, in order to be entitled to the benefits of this Article, the Unit Operator and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days, actually commence the proposed operation and complete it with due diligence. Unit Operator shall perform all work for the account of the Consenting Parties. Consenting Parties, when conducting operations on the Unit Area pursuant to this provision, shall comply with all terms and conditions of this Unit Agreement.

If less than all parties approve any proposed operation, the Unit Operator, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the Unit Operator of its desire to (a) limit participation to such party's interest as shown on Exhibit "D" or (b) carry its proportionate share of Non-Consenting Parties' interests. Failure to advise the Unit Operator shall be deemed an election of alternative (a). The Unit Operator, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

