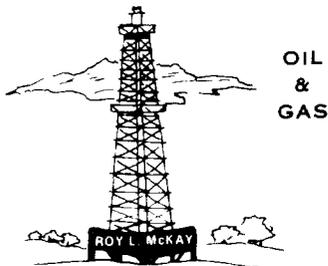


# McKay Oil Corporation

ROY L. MCKAY, PRESIDENT

MAILING ADDRESS: P.O. BOX 2014 ROSWELL, N.M. 88202 • TELEPHONE 505/623-4735

STREET ADDRESS: ONE MCKAY PLACE ROSWELL, N.M. 88201 • FAX NO. 505/624-2202



May 17, 1991-

RECEIVED

MAY 2 1991

OIL CONSERVATION DIVISION

Oil Conservation Division  
New Mexico State Land Office  
310 Old Santa Fe Trail  
Santa Fe, NM 87504

Attention: Florence Davidson

RE: Charolette State Unit  
Chaves County, NM

Dear Commission:

This letter is to formally notify the Commission that it is the intent of McKay Oil Corporation to establish the Charolette State Unit to be located in Northwest Chaves County.

The proposed Unit will include all of the following lands:

Township 5 South, Range 20 East, NMPM

Section 13: SW/SW  
Section 14: S/2, SW/NW  
Section 15: All  
Section 16: All  
Section 17: S/2, S/2NE, NE/NE  
Section 18: NE, S/2SE, NE/SE  
Section 19: E/2, SW  
Section 20: All  
Section 21: All  
Section 22: All  
Section 23: All  
Section 24: All  
Section 25: All  
Section 26: All  
Section 27: All  
Section 28: All  
Section 29: All  
Section 30: E/2, N/2SW  
Section 31: N/2, N/2SE, NE/SW

Page 2 of 2  
Oil Conservation Division  
May 17, 1991

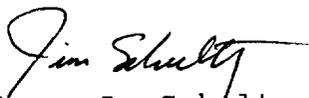
Section 32: N/2, SE, N/2SW, SE/SW  
Section 33: All  
Section 34: NE/NE, W/2NE, NW, NW/SW  
Section 35: N/2  
Section 36: All

It is requested that the OCD hearing for this Unit be set for the June 13, 1991 hearing date.

Should you have any questions as to this matter, please do not hesitate to contact me at 1-800-545-2944. Thank you for your cooperation and assistance.

Very truly yours,

MCKAY OIL CORPORATION

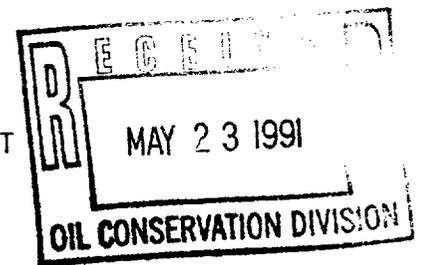
  
James L. Schultz  
V.P. Land & Legal

JLS/ml

Case 10321

BEFORE THE OIL CONSERVATION DIVISION  
ENERGY AND MINERALS DEPARTMENT  
STATE OF NEW MEXICO

APPLICATION FOR APPROVAL OF  
THE CHAROLETTE STATE UNIT AGREEMENT  
CHAVES COUNTY, NEW MEXICO



New Mexico Oil Conservation Division  
Santa Fe, New Mexico 87501

Comes the undersigned McKay Oil Corporation, with offices at Roswell, New Mexico, and files herewith one (1) copy of the proposed Unit Agreement for the development and operation of the Charolette State Unit Area, Chaves County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof states:

1. That the proposed Unit Area covered by said Agreement embraces 12,655.25 acres of land, more or less, as shown on Exhibit "A" which is attached hereto. All lands are State of New Mexico lands.

2. The Unit Area is located approximately 29 miles North of the town of Roswell, New Mexico.

3. That applicant is informed and believes, and upon such information and belief states, that the proposed unit area covers all or substantially all of the geological feature involved, and that in the event of a discovery of oil and gas thereon, that said Unit Agreement will permit the producing area to be developed or operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That McKay Oil Corporation is designated as the Unit Operator in said Unit Agreement, and as such, is given authority under the terms thereof to carry on all operations necessary for the development and operation of the Unit Area for oil and gas subject to all applicable laws and regulations. That said Unit Agreement provides for an Initial Test Well to a depth to test the Abo Formation, but applicant is not obligated to drill said well in any event to a depth in excess of 3,600 feet.

5. That the Applicant believes that in the event oil or gas is discovered in paying quantities on lands within the Unit Area, that the field or area can be developed more economically and efficiently under the terms of said Unit Agreement, to the end that maximum recovery will be obtained of unitized substances and that said Unit Agreement is in the interest of conservation and prevention of waste as contemplated by the New Mexico Oil Conservation Division rules and regulations.

6. That Application for approval of said Unit Agreement has been filed with the Commissioner of Public Lands.

7. That upon an order being entered by the New Mexico Oil Conservation Division approving said Unit Agreement, and after approval by the Commissioner of Public Lands, an executed and approved copy will be filed with the New Mexico Oil Conservation Division.

WHEREFORE, the undersigned applicant respectfully requests that a hearing be held before an examiner on the matter of said Unit Agreement, and that upon said hearing, said Unit Agreement be approved by the New Mexico Oil Conservation Division as being in the interest of conservation and the prevention of waste. Applicant respectfully requests that this matter be heard at the June 13th, 1991, hearing.

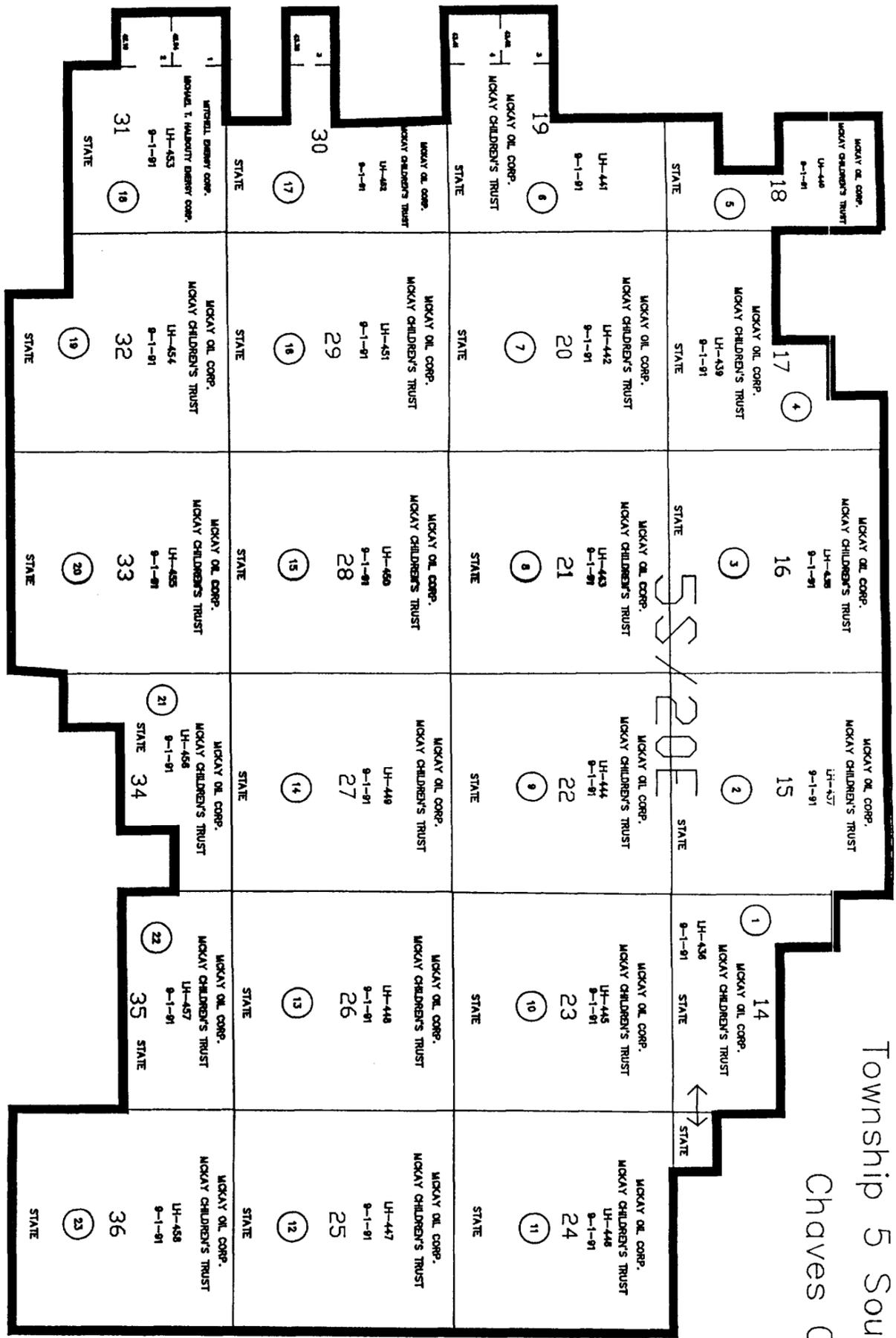
DATED this 20th day of May, 1991.

McKAY OIL CORPORATION

By: James L. Schultz  
James L. Schultz  
V.P. Land & Legal

# CHAROLETTE STATE UNIT

Township 5 South, Range 20 East, NMPM  
Chaves County, New Mexico



— Unit Outline  
 ① Tract Number  
 All Tracts are State Lands  
 12,655.25 TOTAL ACRES

McKay Oil Corporation  
Roswell, New Mexico

FOR THE DEVELOPMENT AND OPERATION  
OF THE

CHAROLETTE STATE UNIT AREA

CHAVES COUNTY, NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 20th day of May 1991, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature ( Sec 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature ( Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

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

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

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

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

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

Township 5 South, Range 20 East, NMPM

Section 13: SW/SW  
Section 14: S/2, SW/NW  
Section 15: All  
Section 16: All  
Section 17: S/2, S/2NE, NE/NE  
Section 18: NE, S/2SE, NE/SE  
Section 19: E/2, SW  
Section 20: All  
Section 21: All  
Section 22: All  
Section 23: All  
Section 24: All  
Section 25: All  
Section 26: All  
Section 27: All  
Section 28: All  
Section 29: All  
Section 30: E/2, N/2SW  
Section 31: N/2, N/2SE, NE/SW  
Section 32: N/2, SE, N/2SW, SE/SW  
Section 33: All  
Section 34: NE/NE, W/2NE, NW, NW/SW  
Section 35: N/2  
Section 36: All

Containing \_\_\_\_\_ acres, more or less,  
Chaves County, New Mexico

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

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

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

3. UNIT OPERATOR: McKay Oil Corporation, whose address is One McKay Place, P.O. Box 2014, Roswell, New Mexico 88202, is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set

forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

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

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

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorized removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interest, shall be required to select a new operator. 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 Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interest, whether one or more, separately or

collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

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

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorized removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interest, shall be required to select a new operator. 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 Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

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

agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

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

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the Abo formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 3400 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months

period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated,) of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this Agreement unless at the expiration of five years (5) after the first day of the month following the effective date of this Agreement diligent drilling operation are in progress on said tract.

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

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

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

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

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

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

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreement and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test wells provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operation upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interest committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided herein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the secondary term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed

hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the primary term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the land embraced in said lease.

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

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

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

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in 50 years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interest, signatory hereto, with the approval of the Commissioner and with notice to Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

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

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulation of the Commissioner or Division, or to apply for relief from any

of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceeding.

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

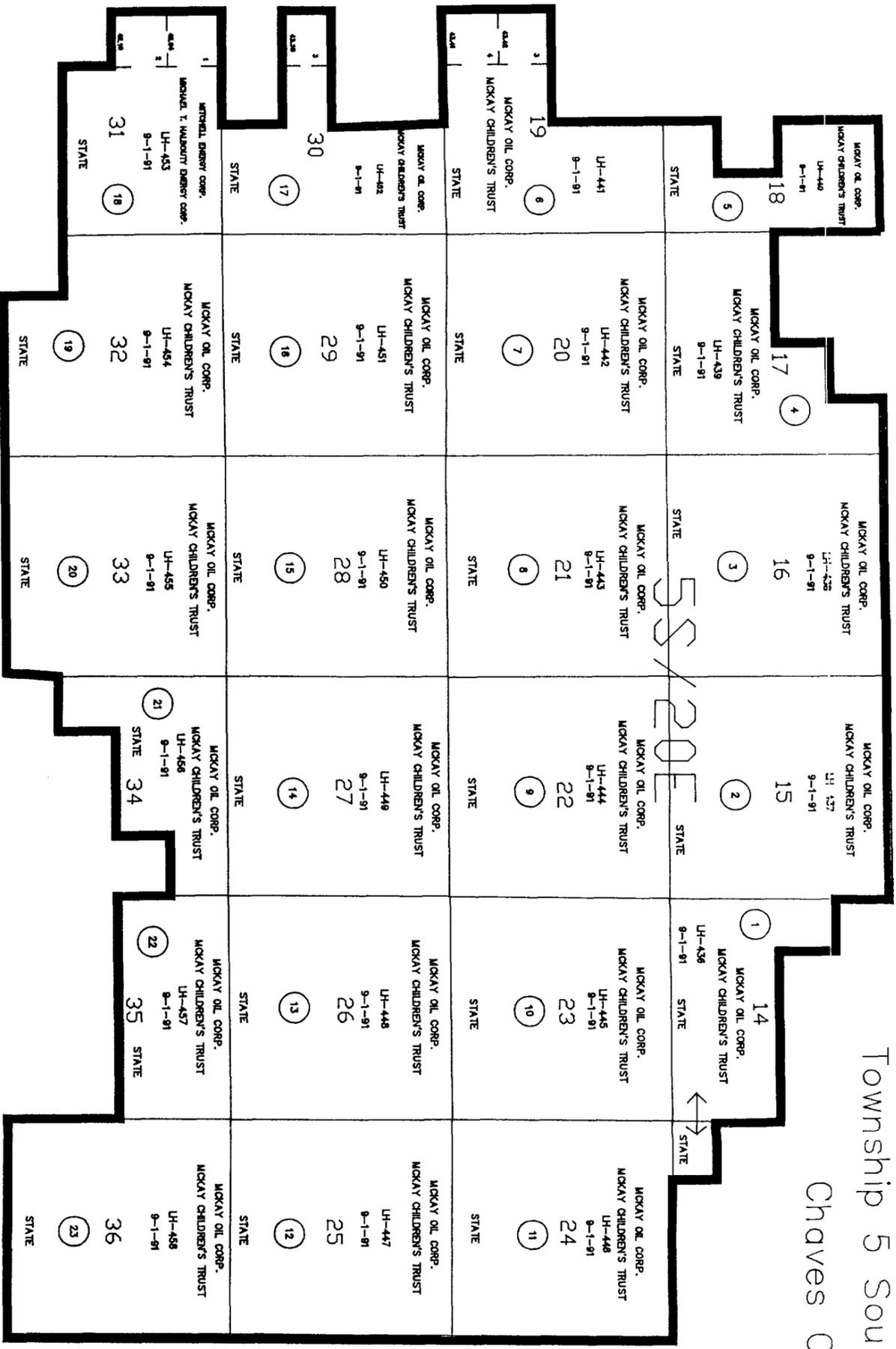
21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement, shall be suspended while, but only so long as, the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of month following th approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.



CHAROLETTE STATE UNIT  
 Township 5 South, Range 20 East, NMPM  
 Chaves County, New Mexico



Unit Outline  
 ① Tract Number  
 All Tracts are State Lands  
 12,655.25 TOTAL ACRES

Mckay Oil Corporation  
 Roswell, New Mexico

SCALE IN MILES

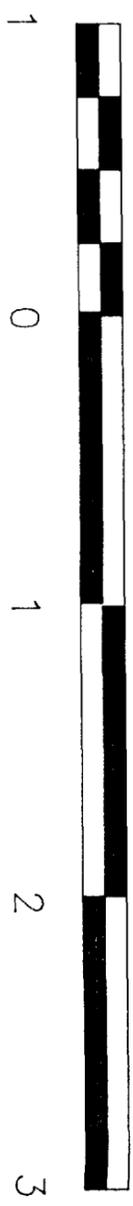


Exhibit A

Schedule of Lands and Leases lying within the Charlotte State Unit Area, Chaves County, New Mexico

Township 5 South, Range 20 East, N.M.P.M.

STATE OF NEW MEXICO LANDS

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	HI OWNER & PERCENTAGE		
1. TSS-R20E									
Section 13: SW/4SW		400.00	LH-436	State of N.M.-12.5%	McKay 011 Corporation	75%	C. Richard Overly-.083025%	McKay 011 Corporation	75.00%
Section 14: SW/4NW, S/2			09/01/91		McKay Children's Trust	25%	William C. Lonquist, Jr.-.083025%	Sanders Petroleum Corporation	25.00%
2. TSS-R20E									
Section 15: ALL		640.00	LH-437	State of N.M.-12.5%	McKay 011 Corporation	75%	C. Richard Overly-.083025%	McKay 011 Corporation	75.00%
			09/01/91		McKay Children's Trust	25%	William C. Lonquist, Jr.-.083025%	Sanders Petroleum Corporation	25.00%
3. TSS-R20E									
Section 16: ALL		640.00	LH-438	State of N.M.-12.5%	McKay 011 Corporation	75%	C. Richard Overly-.083025%	McKay 011 Corporation	75.00%
			09/01/91		McKay Children's Trust	25%	William C. Lonquist, Jr.-.083025%	Sanders Petroleum Corporation	25.00%
							Mills H. Oakes-.010935%		
							Gayle A. Dalton-.003645%		
							Milton R. Fry-.021870%		

EXHIBIT "B" - PART I

Schedule of Lands and Leases lying within the Charlotte State Unit Area, Chaves County, New Mexico

Township 5 South, Range 20 East, N.M.P.M.

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	MI OWNER & PERCENTAGE
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STATE OF NEW MEXICO LANDS

4. T5S-R20E Section 17: NE $\frac{1}{2}$ NE $\frac{1}{2}$ , S $\frac{1}{2}$ NE $\frac{1}{2}$ , S $\frac{1}{2}$  440.00 LH-439 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% McKay Oil Corporation 75.00% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Mills H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%

5. T5S-R20E Section 18: NE $\frac{1}{2}$ , NE $\frac{1}{2}$ SE $\frac{1}{2}$ , S $\frac{1}{2}$ SE $\frac{1}{2}$  280.00 LH-440 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% McKay Oil Corporation 75.00% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Mills H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%

6. T5S-R20E Section 19: Lots 3,4, NE $\frac{1}{2}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{2}$  486.83 LH-441 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% McKay Oil Corporation 75.00% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Mills H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%

7. T5S-R20E Section 20: ALL 640.00 LH-442 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% McKay Oil Corporation 75.00% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Mills H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%

EXHIBIT "g" - PART I

Schedule of Lands and Leases lying within the Charlotte State Unit Area, Chaves County, New Mexico

Township 5 South, Range 20 East, N.M.P.M.

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	HI OWNER & PERCENTAGE
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NEW MEXICO STATE LANDS

8. TSS-R20E Section 21: ALL 640.00 LH-443 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation 75.00% Sanders Petroleum Corporation 25.00%

9. TSS-R20E Section 22: ALL 640.00 LH-444 09/01/91 State of N.M.-12.5% Mitchell Energy, et al 100% Mitchell, et al 100.00%

10. TSS-R20E Section 23: ALL 640.00 LH-445 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation 75.00% Sanders Petroleum Corporation 25.00%

11. TSS-R20E Section 24: ALL 640.00 LH-446 09/01/91 State of N.M.-12.5% McKay Oil Corporation 75% McKay Children's Trust 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation 75.00% Sanders Petroleum Corporation 25.00%

Milton R. Fry-.021870%  
Milton R. Fry-.021870%  
Gayle A. Dalton-.003645%  
Milton R. Fry-.021870%

EXHIBIT "B" - PART 1

Schedule of Lands and Leases lying within the Charlotte State Unit Area, Chaves County, New Mexico

Township 5 South, Range 20 East, N.M.P.M.

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	HI OWNER & PERCENTAGE
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STATE OF NEW MEXICO LANDS

12. T5S-R20E Section 25: ALL 640.00 LH-447 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr. Sanders Petroleum Corporation 75.00% .083025% Milton R. Fry-.021870%

13. T5S-R20E Section 26: ALL 640.00 LH-448 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr. Sanders Petroleum Corporation 75.00% .083025% Milton R. Fry-.021870%

14. T5S-R20E Section 27: ALL 640.00 LH-449 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Milton R. Fry-.021870%

15. T5S-R20E Section 28: ALL 640.00 LH-450 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr. Sanders Petroleum Corporation 25.00% .083025% Milton R. Fry-.021870%

Milton R. Fry-.021870%  
Gayle A. Dalton-.003645%  
Milton R. Fry-.021870%

EXHIBIT "8" - PART I

Schedule of Lands and Leases lying within the April 1 State Unit Area, Chaves County, New Mexico

Township 3 South, Range 20 East, N.M.P.M.

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	WI OWNER & PERCENTAGE
STATE OF NEW MEXICO LANDS							
16.	T5S-R20E Section 29: ALL	640.00	LH-451 09/01/91	State of N.M.-12.5%	Mitchell, et al	100%	Mitchell, et al 100.00%
17.	T5S-R20E Section 30: Lot 3, E $\frac{1}{2}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$	403.38	LH-452 09/01/91	State of N.M.-12.5%	Mckay Oil Corporation Mckay Children's Trust	75% 25%	Mckay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%
						C. Richard Overly-.083025% William C. Lonquist, Jr.- .083025% Mittis H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%	
18.	T5S-R20E Section 31: Lots 1, 2, NE $\frac{1}{2}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$	445.04	LH-453 09/01/91	State of N.M.-12.5%	Mitchell Energy Corp. Michael Halbouty Energy	50% 50%	Mitchell Energy Corporation Michael T. Halbouty Energy 50.00% 50.00%
19.	T5S-R20E Section 32: N $\frac{1}{2}$ , N $\frac{1}{2}$ S $\frac{1}{2}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ , S $\frac{1}{2}$ SE $\frac{1}{4}$	600.00	LH-454 09/01/91	State of N.M.-12.5%	Mckay Oil Corporation Mckay Children's Trust	75% 25%	Mckay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%
						C. Richard Overly-.083025% William C. Lonquist, Jr. .083025% Mittis H. Oakes-.010935% Gayle A. Dalton-.003645% Milton R. Fry-.021870%	

EXHIBIT "B" - PART I

Schedule of Lands and Leases lying within the Charlotte State Unit Area, Chaves County, New Mexico

Township 5 South, Range 20 East, N.M.P.M.

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXPIRATION	BASIC ROYALTY & OWNERSHIP	LESSEE OF RECORD & PERCENTAGE	ORI PERCENTAGE	MI OWNER & PERCENTAGE
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STATE OF NEW MEXICO LANDS

20. TSS-R20E Section 33: ALL 640.00 LH-455 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%

21. TSS-R20E Section 34: N½N½E½, SW¼N½E½, NW¼, NW¼SW¼ 320.00 LH-456 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%

22. TSS-R20E Section 35: N½ 320.00 LH-457 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%

23. TSS-R20E Section 36: ALL 640.00 LH-458 09/01/91 State of N.M.-12.5% McKay Oil Corporation McKay Children's Trust 75% 25% C. Richard Overly-.083025% William C. Lonquist, Jr.-.083025% Milton R. Fry-.021870% McKay Oil Corporation Sanders Petroleum Corporation 75.00% 25.00%

Milton R. Fry-.021870% Milton R. Fry-.021870% Milton R. Fry-.021870% Milton R. Fry-.021870% Milton R. Fry-.021870%

RANDOLPH M. RICHARDSON

OIL AND GAS LAND AND UNIT CONSULTANT

FEDERAL - STATE - FEE

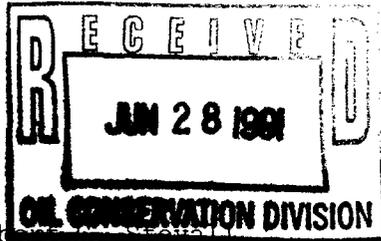
P. O. BOX 2423

ROSWELL, NEW MEXICO 88202-2423

June 26, 1991

ATTORNEY AT LAW  
NEW MEXICO - TEXAS

OFFICE 505 622-8801  
HOME 505 622-7985



In Re: Amended Application for  
Hearing and Approval of the  
Charolette State Unit Agreement  
Chaves County, New Mexico

Mr. Robert Stovall  
Oil Conservation Division  
P.O. Box 2088  
Santa Fe, NM 87504-2088

Dear Mr. Stovall:

Please consider this an an Amended Application for approval of the McKay Oil Corporation Charolette State Unit Agreement, Chaves County, New Mexico.

Under date of May 20, 1991, McKay Oil Corporation filed application for approval of this Charolette State Unit Agreement and hearing was placed on the June 13, 1991 Docket as Case #10321. It was requested that the case be continued until the July 25th date.

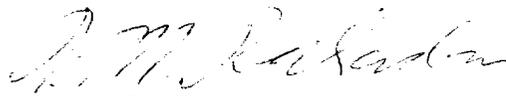
Due to the inclusion of additional acreage in order to make all tracts at least 160 acres, our application of May 20, 1991 should be amended to show that the Unit Area now contains a total of 13,946.73 acres.

The remainder of the application remains the same and the increase in acreage and hearing date are all that should be changed.

In connection with the hearing date, we request that Case #10321, (as herein amended), McKay Oil Corporation Charolette State Unit be held on August 8, 1991.

Thank you and please advise if you need any additional information at this time.

Yours truly,

  
R. M. Richardson

RMR/lrs

cc: McKay Oil Corporation