

UNIT OPERATING AGREEMENT

SHUGART WATERFLOOD UNIT
EDDY COUNTY, NEW MEXICO

Hanson

3

10685 and 10686

UNIT OPERATING AGREEMENT SHUGART WATERFLOOD UNIT EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of December, 1992, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, a Unit Agreement, entitled "Shugart Waterflood Unit, Eddy County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

NOW THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1 CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

ARTICLE 2 EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference:

2.1.1 Exhibits A, A-1 and B of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit C, this Agreement shall govern.

2.1.3 Exhibit D, which states the insurance coverages to be maintained pursuant to this Agreement.

2.1.4 Exhibit E, which is the Certificate of Compliance pursuant to the Code of Federal Regulations.

2.1.5 Exhibit F, which is a Notice of Unit Operating Agreement Lien which all parties by execution or ratification of this Agreement agree shall be placed of record and binding upon their interest.

2.1.6 Exhibit G, which is a Gas Balancing Agreement that all parties agree will govern gas production and distribution of proceeds.

2.2 Revision of Exhibits. Unit Operator shall revise Exhibit A from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Fifty Thousand Dollars (\$50,000.00); provided that approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Twenty-Five Thousand Dollars (\$25,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that the audits shall:

3.2.7.1 not be conducted more than once each year except upon the resignation or removal of Unit Operator;

3.2.7.2 be made at the sole expense of the Working Interest Owner or Owners, jointly and severally, requesting same; and

3.2.7.3 be made upon not less than thirty (30) days written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit C.

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit C.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 Removal. The removal of Unit Operator and the selection of a successor.

- 3.2.12 Enlargement. The enlargement or contraction of the Unit Area.
- 3.2.13 Adjustment. The adjustment and readjustment of investments.
- 3.2.14 Termination. The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall, in writing, inform Unit Operator of the names and addresses of the representatives and alternates who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners, having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty-five percent (65%) or more voting interest; provided that, should any one Working Interest Owner have more than fifty percent (50%) voting interest, its vote must be supported by the vote of two or more Working Interest Owners having a combined voting interest of at least ten percent (10%).

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit

immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

ARTICLE 8 TAXES

8.1 Ad Valorem Taxes. Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or in respect to the production or handling of its share of Unitized Substances.

ARTICLE 9 INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall do the following:

9.1.1 Carry Workmen's Compensation insurance in accordance with the Laws of the State of New Mexico.

9.1.2 Unit Operator shall carry insurance for the joint account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages or destruction resulting from Unit Operations. The insurance provided by Unit Operator is attached as Exhibit D.

9.1.3 Unit Operator shall require all contractors engaged in work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Unit Operator's minimum requirements.

ARTICLE 10 ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date hereof, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells and Casing. All wells located within the Unit Area, together with the casing therein.

10.1.2 Well and Lease Equipment. The tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

Execution or ratification of this Agreement by Working Interest Owners signifies granting of such interest upon the Effective Date, subject to Section 10.5 below.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, at Unit Expense, inventory and evaluate, in accordance with the provisions of Exhibit C, the personal property taken over.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above or reflected as a credit on such Working Interest Owner's account.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit C. Each Working Interest Owner shall reimburse the Unit Operator for its share of Unit Expense as follows:

11.1.1 Beginning at 7:00 o'clock a.m. on the Effective Date hereof, all operating expenses shall be shared by Working Interest Owners in accordance with their applicable Unit Participation which is in effect at the time such expense is incurred.

11.2 Budgets. Before or as soon as practical after the Effective Date hereof, Unit Operator shall prepare a budget of estimated Unit Expenses for the remainder of the calendar year, and, on or before the first day of each February thereafter, shall prepare such budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need to be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator Penalty. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit C. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-

Operator, together with a penalty of 200% of such Non-Operator's proportionate share of expenses plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

By execution or ratification of this Agreement, Working Interest Owners authorize the recording and filing of Exhibit F giving notice of the lien rights and security interest set forth above.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest and/or penalty collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners in proportion to their respective Unit Participation; provided, however, that in the event a Tract is qualified as a result of the execution of the indemnity provided by Section 9.1.2 of the Unit Agreement, the Working Interest Owner executing such indemnity shall bear the burden or take the benefits of such differences in royalty payments in the same proportion and to the same extent that such Working Interest is obligated by such indemnity with respect to the claims and demands referred to in said Section 9.1.2.

ARTICLE 12 NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owners shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

ARTICLE 13 TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit A, and hereby agrees to indemnify and hold harmless the other Working Interest Owners for any loss due to failure, in whole or in part, of its title to any such interest except failure of title arising out of Unit Operations; provided that such indemnity shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any working interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participation of the other Working Interest Owners at the time of the title failure.

13.3 Waiver of Right to Partition. Each Lessee and Working Interest Owner hereto agrees that, during the existence of this Agreement, it will not resort to any action to partition the interval of the Unitized Formation hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

13.4 Notice of Transfer of Title. No change of title shall be binding on the Unit or Unit Operator until the first day of the calendar month next succeeding the date of receipt by Unit Operator of evidence, satisfactory to it, of such change of ownership. Each such transfer, assignment or conveyance, whether so stating or not, shall operate to impose upon the party or parties acquiring such interest the obligation of the predecessor in interest with respect to the interest so transferred and shall likewise operate to give and grant to the party or parties acquiring such interest all benefits attributable hereunder to such interest.

ARTICLE 14 LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Ten Thousand Dollars (\$10,000.00); provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above-specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

14.3 Force Majeure. Any obligation imposed by this Agreement on each party, except for the payment of money, shall be suspended while compliance therewith is prevented, in whole or in part, by a strike, fire, war, civil disturbance, act of God; by Federal, state or municipal laws; by any rule, regulation or order of a governmental agency; by inability to secure materials or by any other cause beyond the reasonable control of such party. No party shall be required against its will to adjust or settle any labor dispute. Neither this Agreement nor any lease or other instrument subject hereto shall be terminated by reason of the suspension of Unit Operations due to any of the causes set forth in this Section.

ARTICLE 15 INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

ARTICLE 16 NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram, or telefax to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4 hereof.

ARTICLE 17 WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all of its Oil and Gas Rights, together with its interest in all Unit Equipment, and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participation. The transferees, in proportion to the respective interests so acquired, shall pay transferor for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by Working Interest Owners, less the cost of abandoning said wells. Should the cost to abandon be greater than the salvage value, then the party desiring to withdraw shall pay the difference to the Unit Operator at such time as the assignment is delivered. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit withdrawal of a Working Interest Owner if its working interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried working interest, or any other interest created out of the working interest which cumulatively total in excess of one-fourth of such interest, or if such working interest is burdened by liens, security interest or other obligations, unless the other Working Interest Owners willing to accept the Assignment agree to accept the working interest subject to such burdens.

ARTICLE 18 ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own said well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and, upon abandonment, to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over the well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19 EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective on the date and at the time that the Unit Agreement becomes effective.

**ARTICLE 23
SUCCESSORS AND ASSIGNS**

23.0.1 Successors and Assigns. The provision hereof shall be covenants running with the lands, leases, and interests covered hereby and shall be binding upon and inure to the benefit of the representative heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

23.1 Four or More Owners. In the event any interest subject to this Agreement is owned or hereafter becomes owned by four or more Working Interest Owners, then, and in such event, said Working Interest Owners agree to furnish Unit Operator with a recordable instrument executed by all such Working Interest Owners designating an agent to receive and be responsible for all costs, expenses, and credits related to Unit Operation and attributable to all such Working Interest Owners.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates opposite their respective signatures.

WORKING INTEREST OWNERS

DATE: _____
ATTEST:

HANSON OPERATING COMPANY, INC.

Secretary-Treasurer

By: _____
Ray Willis, Vice-President
Management & Finance

STATE OF NEW MEXICO

COUNTY OF CHAVES

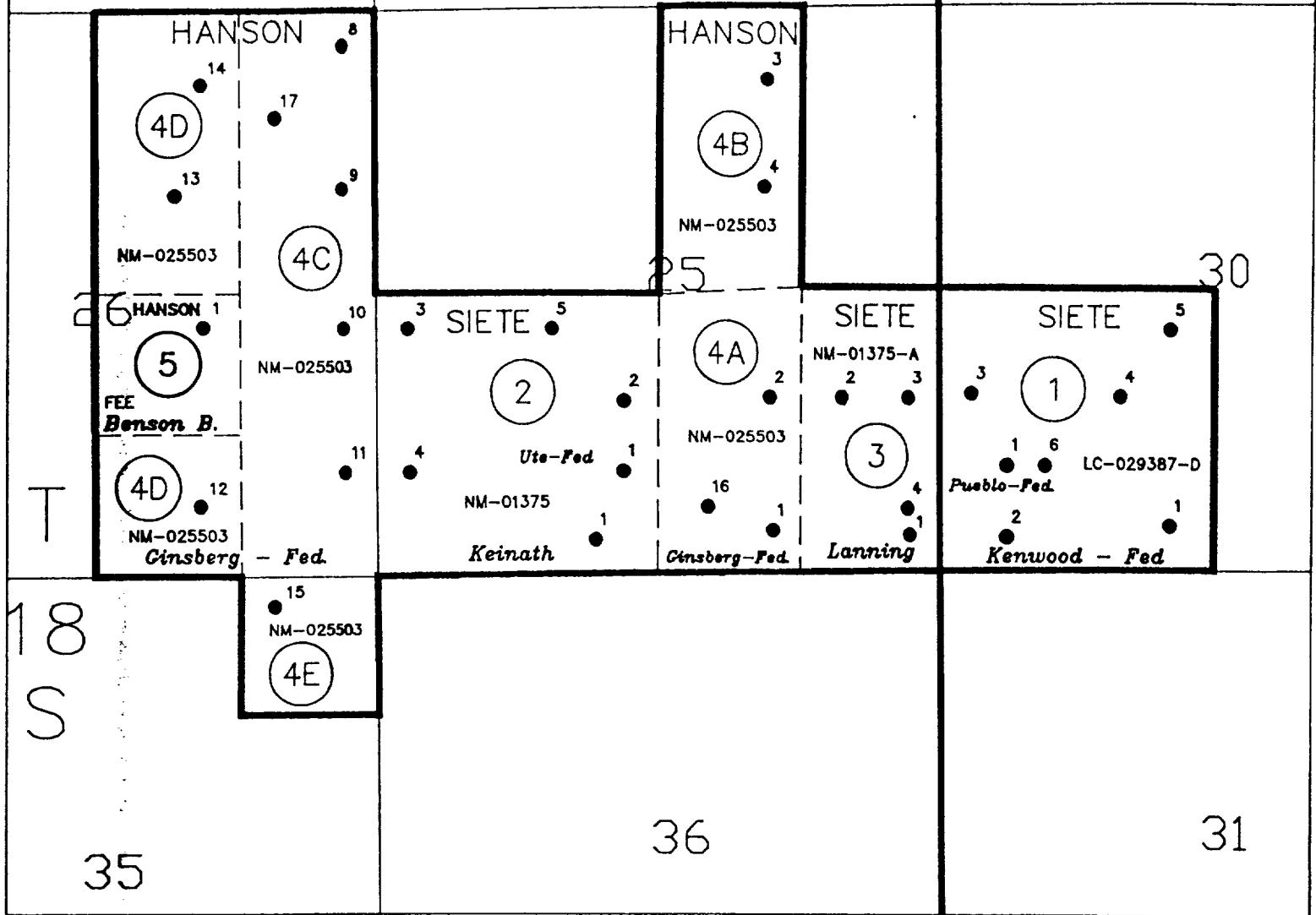
The foregoing instrument was acknowledged before me this ____ day of _____, 1993, by RAY WILLIS, Vice-President, Management & Finance, for HANSON OPERATING COMPANY, INC., a New Mexico corporation, on behalf of said corporation.

My Commission expires:

Notary Public

R 30 E

R 31 E



UNIT AREA BOUNDARY



TRACT NUMBER

	ACRES	PERCENTAGE
STATE LAND	-0-	0%
FEDERAL LAND	871	95.6%
FEE LAND	40	4.4%
TOTAL	911	100.0%

HANSON OPERATING
COMPANY, INC.BENSON SHUGART WATERFLOOD
UNIT AREA PLAT

HANSON - SIETE - MANZANO

SHUGART FIELD
EDDY COUNTY, NEW MEXICO

EXHIBIT A

0 1/4 1/2 3/4 1 MILE



SCALE

EXHIBIT B
TO UNIT AGREEMENT
BENSON SHUGART WATERFLOOD UNIT
Eddy County, New Mexico

TRACT	LEGAL DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & DEED/NOTATION DATE OF LEASE	BASE ROYALTY OWNER & PERCENTAGE	LESSEE OF RECORD	OVERHEADS ROYALTY PERCENTAGE	WORKING INTEREST OWNER	PERCENTAGE
TRACT 1	T188, R20E, SEC. 28, W2NE/4, E28W/4 Lots 3 & 4 (W2SW/4, E28W/4)	151.00	LC-028087(6) Held by Production	United States - 1/8"	T. R. Parler Estate - 27% Canadian Kenned Company - 73%	12.500000%	Mazzone Oil Corporation Slate Oil & Gas Corporation McBride Oil & Gas Corporation	33.330000% 33.340000% 33.330000%
TRACT 2	T188, R20E, SEC. 28, SW/4	160.00	NM-01375 Held by Production	United States - 1/8	Mazzone Oil Corporation - 100%	6.250000%	McBride Oil & Gas Corporation Slate Oil & Gas Corporation Mazzone Oil Corporation	33.330000% 33.330000% 33.340000%
TRACT 3	T188, R20E, SEC. 28, E28W/4	80.00	NM-01375-A Held by Production	United States - 1/8	Mazzone Oil Corporation - 100%	6.250000%	McBride Oil & Gas Corporation Slate Oil & Gas Corporation Mazzone Oil Corporation	33.330000% 33.330000% 33.340000%
TRACT 4A	T188, R20E, SEC. 28, W28W/4	80.00	NM-025503 Held by Production	United States - 1/8	McBride Oil & Gas Corporation - 100%	2.500000%	Harrison-McBride Petroleum Company, a New Mexico Limited Partnership Thomas R. Lottland & Barbara Lottland Middeson, Co-Trustees of the Margaret R. Lottland Trust Barbara Lottland Middeson Tom R. Lottland Samuel S. Spencer McBride Oil & Gas Corporation	22.500000% 5.000000% 5.000000% 12.500000% 50.000000%
TRACT 4B	T188, R20E, SEC. 28, W2NE/4	80.00	NM-025503 Held by Production	United States - 1/8	McBride Oil & Gas Corporation - 100%	2.500000%	Harrison-McBride Petroleum Company, a New Mexico Limited Partnership Thomas R. Lottland & Barbara Lottland Middeson, Co-Trustees of the Margaret R. Lottland Trust Barbara Lottland Middeson Tom R. Lottland Samuel S. Spencer McBride Oil & Gas Corporation	22.500000% 5.000000% 5.000000% 12.500000% 50.000000%
TRACT 4C	T188, R20E, SEC. 28, E28W/2	160.00	NM-025503 Held by Production	United States - 1/8	McBride Oil & Gas Corporation - 100%	5.156250%	Harrison-McBride Petroleum Company, a New Mexico Limited Partnership Harrison Operating Company, Inc. Rangan B. Sweet Babe Development Co., Inc. McBride Oil & Gas Corporation	10.416250% 2.083750% 2.083750% 25.000000% 60.416250%
TRACT 4D	T188, R20E, SEC. 28, W2NE/4, SW/4SE/4	120.00	NM-025503 Held by Production	United States - 1/8	McBride Oil & Gas Corporation - 100%	5.156250%	Harrison-McBride Petroleum Company, a New Mexico Limited Partnership Harrison Operating Company, Inc. Rangan B. Sweet Grover N. Strader Hilo Development Company, a Limited Partnership McBride Oil & Gas Corporation	5.093029% 1.018949% 1.078849% 18.287459% 19.468745% 50.060529%
TRACT 4E	T188, R20E, SEC. 28, W2NE/4	40.00	NM-025503 Held by Production	United States - 1/8	McBride Oil & Gas Corporation - 100%	2.500000%	McBride Oil & Gas Corporation Harrison-McBride Petroleum Company, a New Mexico Limited Partnership	10.000000% 90.000000%
TOTAL FEDERAL ACREAGE:		871.00	or 93.6%					

TRACT	LEGAL DESCRIPTION	NUMBER OF ACRES	SERIAL NO. & EXPIRATION DATE OF LEASE	BASIC ROYALTY OWNER & PERCENTAGE	LESSEE OF RECORD	OVERSIGHT ROYALTY PERCENTAGE	WORKING INTEREST OWNER	PERCENTAGE
TRACT 5	T188 RDDE SEC 28 NW 48E/4	40.00	No Serial Number Made by Production	Donald E. Sholmer Testamentary Trust Trustees are Pamela S. Lutz and J. E. Chastfield 1/2 of 1/8 Pecos Abstract Company 1/2 of 1/8	Donald E. Sholmer - 100%	None	McSide Oil & Gas Corporation Harrison-McBride Petroleum Company, a New Mexico Limited Partnership Harrison Operating Company, Inc. Ruegan B. Sweet	70 822500% 20 822500% 4.187500% 4.187500%

TOTAL FEE ACRES: 40.00 of 4.4%

* Schedule "D" selling-gas royalty ranging from 12-1/2% to 25-1/2% on oil and from 12-1/2% to 16-3/4% on gas, but for the purpose of the schedule assumed to be 12 3/4%

RECAPITULATION			
871 Acres of Federal Land:		95.6%	
40 Acres of Fee Land:		4.4%	
911 Acres		100.0%	

Oil/Gas/Minerals

TOTAL TR

TRACT	LEGAL DESCRIPTION	WELLS	INTEREST OWNERS	CALCULATION OF INTEREST	TRACT INTEREST	TRACT FACTOR	NET REVENUE UNIT PARTICIPATION	GROSS UNIT PARTICIPATION	TYPE OF INTEREST
TRACT 4A	Turning 18 South, Range 30 East, N48°W SECTION 25: W/2SE/4	Glenburg Fed 1 (SW/4SE/4) Glenburg Fed 2 (NW/4SE/4) Glenburg Fed 16 (SW/4SE/4)	United States of America	12.5%	0.12500000	0.04786568	0.00086119		PI
			Anne R. Hyman & Lynne M. Drash, Jure	1.25%	0.01250000	0.04786568	0.00044885		ORRI
			Ruth Black, separate	3/4 of 1.25%	0.00875000	0.04786568	0.00044885		ORRI
			Mary Louise Scott, separate	(1/40 of 2.5%) plus (1/40 of 2.5%)	0.00125000	0.04786568	0.00005882		ORRI
			Blanche Stidham, separate	(1/40 of 2.5%)	0.00062500	0.04786568	0.00002941		ORRI
			Bade Development Co., Inc.	(1/20 of 2.5%)	0.00125000	0.04786568	0.00005882		ORRI
			Hanson-Midfield Petroleum Company, a New Mexico Limited Partnership	(22.5% of 85%)	0.19125000	0.04786568	0.00815238		ORRI
			Thomas R. Loffhard & Barbara Loffhard	(5% of 85%)	0.04250000	0.04786568	0.00203086		ORRI
			Margaret R. Loffhard Trust	(5% of 85%)	0.04250000	0.04786568	0.00203086		ORRI
			Barbara Loffhard Middleton	(5% of 85%)	0.04250000	0.04786568	0.00203086		ORRI
Tom R. Loffhard	(12.5% of 85%)	0.10625000	0.04786568	0.00500646		ORRI			
Samuel S. Spencer	(50% of 85%)	0.42500000	0.04786568	0.02003882		ORRI			
McBride Oil & Gas Corporation									
TOTAL TRACT 4A:					1.00000000	0.04786568	0.04786568		
TRACT 4B	Turning 18 South, Range 30 East, N48°W SECTION 25: W/2SE/4	Glenburg Fed 3 (NW/4NE/4) Glenburg Fed 4 (SW/4NE/4)	United States of America	12.5%	0.12500000	0.10602061	0.01312736		PI
			Anne R. Hyman & Lynne M. Drash, Jure	1.25%	0.01250000	0.10602061	0.00131273		ORRI
			Ruth Black, separate	3/4 of 1.25%	0.00875000	0.10602061	0.00084637		ORRI
			Mary Louise Scott, separate	(1/40 of 2.5%) plus (1/40 of 2.5%)	0.00125000	0.10602061	0.00013127		ORRI
			Blanche Stidham, separate	(1/40 of 2.5%)	0.00062500	0.10602061	0.00006564		ORRI
			Bade Development Co., Inc.	(1/20 of 2.5%)	0.00125000	0.10602061	0.00013126		ORRI
			Hanson-Midfield Petroleum Company, a New Mexico Limited Partnership	(22.5% of 85%)	0.19125000	0.10602061	0.02008517		ORRI
			Thomas R. Loffhard & Barbara Loffhard	(5% of 85%)	0.04250000	0.10602061	0.00446337		ORRI
			Margaret R. Loffhard Trust	(5% of 85%)	0.04250000	0.10602061	0.00446337		ORRI
			Barbara Loffhard Middleton	(5% of 85%)	0.04250000	0.10602061	0.00446337		ORRI
Tom R. Loffhard	(12.5% of 85%)	0.10625000	0.10602061	0.01115843		ORRI			
Samuel S. Spencer	(50% of 85%)	0.42500000	0.10602061	0.04463372		ORRI			
McBride Oil & Gas Corporation									
TOTAL TRACT 4B:					1.00000000	0.10602061	0.10602061		
TRACT 4C	Turning 18 South, Range 30 East, N48°W SECTION 25: E/2E/2	Glenburg Fed 5 (NE/4NE/4) Glenburg Fed 6 (SE/4NE/4) Glenburg Fed 10 (NE/4SE/4) Glenburg Fed 11 (SE/4SE/4) Glenburg Fed 17 (NE/4NE/4)	United States of America	12.5%	0.12500000	0.35686574	0.04468206		PI
			Anne R. Hyman & Lynne M. Drash, Jure	1.25%	0.01250000	0.35686574	0.00448821		ORRI
			Ruth Black, separate	3/4 of 1.25%	0.00875000	0.35686574	0.00337366		ORRI
			Mary Louise Scott, separate	(1/40 of 2.5%) plus (1/40 of 2.5%)	0.00125000	0.35686574	0.00044882		ORRI
			Blanche Stidham, separate	(1/40 of 2.5%)	0.00062500	0.35686574	0.00022441		ORRI
			Bade Development Co., Inc.	(1/20 of 2.5%)	0.00125000	0.35686574	0.00044882		ORRI
			Glenburg Investments	2.66625%	0.00875000	0.35686574	0.00866899		ORRI
			Hanson-Midfield Petroleum Company, a New Mexico Limited Partnership	(1/2 of 85.33% of 85% of 82.34375%)	0.08177131	0.35686574	0.00817466		ORRI
			Hanson Operating Company, Inc.	(1/2 of 16.67% of 25% of 82.34375%)	0.01715626	0.35686574	0.00174466		ORRI
			Ragan & Sweet & Mary Leland Sweet, Jure	(25% of 82.34375%)	0.02048088	0.35686574	0.00740788		ORRI
Bade Development Co., Inc.	(50% of 82.34375%) plus (1/2 of 85.33% of 25% of 82.34375%)	0.08177131	0.35686574	0.17902316		ORRI			
McBride Oil & Gas Corporation									
TOTAL TRACT 4C:					1.00000000	0.35686574	0.35686574		

TRACT	LEGAL DESCRIPTION	WELLS	INTEREST OWNER	CALCULATION OF INTEREST	TRACT INTEREST	TRACT FACTOR	NET REVENUE UNIT PARTICIPATION	GROSS UNIT PARTICIPATION	TYPE OF INTEREST
TRACT 4D	Township 18 South, Range 30 East, N46W4 SECTION 28: NW1/4NE/4 Glenberg Fed 14 (NW1/4NE/4)	Glenberg Fed 13 (SW1/4NE/4) Glenberg Fed 13 (SW1/4NE/4) Glenberg Fed 14 (NW1/4NE/4)	United States of America Bernard R. Glenberg & Mary Hannah Glenberg, Co-Trustees of the Bernard R. Glenberg & Mary Hannah Glenberg Trust under Agreement dated January 24, 1985 Bernard R. Glenberg, Trustee of the Mabelle E. Glenberg Trust Created under Agreement dated 1/9/85 Bernard R. Glenberg, Trustee of the Benjamin B. Glenberg Trust under the Last Will and Testament of Benjamin B. Glenberg dated 6/23/78 Anne R. Hyman & Lynne H. Drizin, Joint Ruth Bluck, separate Mary Louise Scott, separate Barbara Sullivan, separate Babe Development Co., Inc. Henson-Midride Petroleum Company, a New Mexico Limited Partnership Henson Operating Company, Inc. Margen B. Sweet & Mary Louise Sweet NW Joint Glover N. Schroder, medical estate unknown HHS Development Company, a Limited Partnership Midride Oil & Gas Corporation	12.5% 1.328125% 0.664025% 1.25% 3/4 of 1.25% (1/40 of 2.5%) plus (1/40 of 2.5%) (1/40 of 2.5%) (1/20 of 2.5%) 1/2 of 20.37221% of 50% of 82.34579% 1/2 of 4.07538% of 50% of 82.34579% 36.57481% of 50% of 82.34579% 36.57749% of 50% of 82.34579% 50% of 82.34579% plus 1/2 of 20.37221% of 50% of 82.34579%	0.1300000 0.01328125 0.0066402 0.01250000 0.00807500 0.00125000 0.00025000 0.00125000 0.04183810 0.00888867 0.0003867 0.1506876 0.1604763 0.41171876 0.04183810	0.1428200 0.1428200			

- Schedule "D" setting-scale royalty ranging from 12.1/2% to 25.1/2% on oil and from 12.1/2% to 16.25% on gas, but for the purpose of this schedule assumed to be 12.5%

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BENSON SHUGART WATERFLOOD UNIT UNIT WORKING INTEREST

WORKING INTEREST OWNER	TRACT 1	TRACT 2	TRACT 3	TRACT 4A	TRACT 4B	TRACT 4C	TRACT 4D	TRACT 4E	TRACT 5	UNIT TOTAL
Barbara Loffland Middleton				0.00239278	0.00626103					0.00764381
Grover N. Strader							0.02001610			0.02001610
Hanson Operating Company, Inc.						0.00749851	0.00144943		0.00228839	0.01123733
Hanson-McBride Petroleum Company, a New Mexico Limited Partnership				0.01076751	0.02382961	0.03748358	0.00724548	0.01777016	0.01144419	0.10634053
Hilo Development Company, a Limited Partnership							0.02772508			0.02772508
Manzano Oil Corporation	0.00634634	0.06582515	0.01796338							0.10000000 *
Siete Oil & Gas Corporation	0.00634825	0.06580540	0.01794800							0.10000000 *
McBride Oil & Gas Corporation	0.00634634	0.06580540	0.01794800	0.02392778	0.06261025	0.21741195	0.07837648	0.00197446	0.03891133	0.48343851 *
Raeagan S. Sweet						0.00749851	0.00144943		0.00228838	0.01123732
Samuel S. Spencer				0.00598195	0.01312756					0.01910951
Thomas R. Loffland & Barbara Loffland Middleton, Co-Trustees of the Margaret R. Loffland Trust				0.00239278	0.00626103					0.00764381
Tom R. Loffland				0.00239278	0.00626103					0.00764381
Bebe Development Co., Inc.						0.08996419				0.08996419
TRACT TOTALS:	0.01904083	0.19743595	0.05384838	0.04786558	0.10602051	0.36986674	0.14226200	0.01974462	0.06493429	1.00000000

* By Agreement dated 1/24/82, Manzano Oil Corporation and Siete Oil & Gas Corporation are to own a 10% Gross Working Interest in the present Unit Area and McBride Oil & Gas Corporation's interest has been decreased in order to solely bear the increased working interest to Manzano and Siete.

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EXHIBIT B-1

TRACT	DESCRIPTION
TRACT 1	Lots 3 and 4 (W/2SW/4), E/2SW/4 Section 30, Township 18 South, Range 31 East, NMPM, containing Manzano Oil Corporation - Kenwood Federal Wells Numbers 1, 2, 3, 4, 5, and 6, and Pueblo Federal Number 1 Well
TRACT 2	SW/4 Section 25, Township 18 South, Range 30 East, NMPM, containing Keinath Federal Number 1, 2, 3, 4, and 5 Wells and Ute Federal Number 1 Well
TRACT 3	E/2SE/4 Section 25, Township 18 South, Range 30 East, NMPM, containing Lanning Federal Number 1, 2, 3, and 4 Wells
TRACT 4A	W/2SE/4 Section 25, Township 18 South, Range 30 East, NMPM, containing Ginsberg Federal Number 1, 2, and 16 Wells
TRACT 4B	W/2NE/4 Section 25, Township 18 South, Range 30 East, NMPM, containing Ginsberg Federal Number 3 and 4 Wells
TRACT 4C	E/2E/2 Section 26, Township 18 South, Range 30 East, NMPM, containing Ginsberg Federal Number 8, 9, 10, 11, and 17 Wells
TRACT 4D	W/2NE/4, SW/4SE/4 Section 26, Township 18 South, Range 30 East, NMPM, containing Ginsberg Federal Number 12, 13, and 14 Wells
TRACT 4E	NE/4NE/4 Section 35, Township 18 South, Range 30 East, NMPM, containing Ginsberg Federal Number 15 Well
TRACT 5	NW/4SE/4 Section 26, Township 18 South, Range 30 East, NMPM, containing Benson "B" #1 Fee Well

dr/oil/hansblm2.agr

EXHIBIT

" C "

Attached to and made a part of that certain Unit Operating Agreement dated December 1, 1992
by and between HANSON OPERATING COMPANY, INC. Unit Operator, and SIETE OIL & GAS
CORPORATION, et al, Unit Non-operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within ^{thirty (30)} ~~thirty (30)~~ days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ^{thirty (30)} ~~thirty (30)~~ days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at twelve percent ~~(12%)~~ ^(12%) per annum on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed Fifteen percent (15%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

~~(X)~~ Fixed Rate Basis, Paragraph 1A, or
 () Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. ~~The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.~~

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

() shall be covered by the overhead rates, or
~~(X)~~ shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

() shall be covered by the overhead rates, or
~~(X)~~ shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,000.00

(Prorated for less than a full month)

Producing Well Rate \$ 300.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

- ~~(1) Operator shall charge the Joint Account at the following rates:~~

(a) Development

Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 75,000.00 :

- A. Five % of first \$100,000 or total cost if less, plus
- B. Three % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. Two % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. Five % of total costs through \$100,000; plus
- B. Three % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. Two % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¼ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
 - (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

I N S U R A N C E

ATTACHED TO AND MADE A PART OF THAT CERTAIN UNIT OPERATING AGREEMENT DATED 1st DAY OF December, 1992, BY AND BETWEEN HANSON OPERATING COMPANY, INC., AS OPERATOR, AND SIETE OIL & GAS CORPORATION, ET AL, AS NON-OPERATORS.

Operator shall at all times while conducting operations hereunder carry the following insurance for the protection and benefit of the Joint Account:

(a) Workman's Compensation Insurance to comply with the applicable Federal and State Workman's Compensation laws.

(b) General Public Liability insurance with bodily injury limits of \$500,000 each occurrence; and property damage limit of \$250,000 each occurrence/\$250,000 included.

(c) Automobile Public Liability insurance with bodily injury limits of \$500,000 combined single limits.

(d) Such other insurance that may be deemed necessary by the Operator to assure proper coverage of equipment and/or oil on the jointly owned property.

All losses not covered by standard form policies of insurance for hazards set out above shall be borne by the parties hereto as their interests may appear at the time of loss.

Operator shall notify Non-Operators promptly in writing of any occurrence wherein liability may exceed the limits of the insurance if covered by insurance.

EXHIBIT E

CERTIFICATE OF COMPLIANCE

Attached to and made a part of that certain
Unit Operating Agreement dated December 1, 1992
Shugart Waterflood Unit, Hanson Operating Company, Inc.
as Operator, Eddy County, New Mexico

Unless this Agreement is exempted by law, rule, regulation or order, Operator shall comply with the following clauses contained in the Code of Federal Regulations (including any revision or redesignation thereof), which are incorporated herein by reference, the full text of which will be made available upon request:

48.C.F.R. Par.52.222-35	(Disabled and Vietnam Veterans);
48.C.F.R. Par.52.222-36	(Handicapped Workers);
48.C.F.R. Par.52.222-26	(Equal Opportunity);
48.C.F.R. Par.55.219-8 & -9	(Utilization of Small and Small Disadvantaged Business Concerns);
and	
48.C.F.R. Par.52.219-13	(Utilization of Women-Owned Small Businesses).

Where required by law and unless previously provided, Operator shall provide a Certificate of Non-Segregated Facilities to Non-Operator and shall require its contractors and subcontractors to so provide the same to Operator. Operator agrees and covenants that none of its employees or employees of its contractors or subcontractors who provide services pursuant to this Agreement are unauthorized aliens as defined in the Immigration Reform and Control Act of 1986.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN UNIT OPERATING AGREEMENT
DATED DECEMBER 1, 1992, BETWEEN HANSON OPERATING COMPANY, INC. AS
OPERATOR, AND OTHER PARTIES SIGNATORY THERETO, AS NON-OPERATORS

NOTICE OF UNIT OPERATING AGREEMENT LIEN

STATE OF NEW MEXICO)
) ss.
COUNTY OF EDDY)

WHEREAS, a Unit Operating Agreement dated December 1, 1992, has been entered into between Hanson Operating Company, Inc. as Operator, and Siete Oil & Gas Corporation, et al as non-operating working interest owners under and by virtue of which the parties to said agreement, as respective owners of the following described oil and gas leasehold interests and un-leased mineral interests situated in Eddy County, New Mexico, to-wit:

Those lands described in Exhibit "B" of the Unit Agreement as referenced in Article 2 in the Unit Operating Agreement.

have agreed with respect to the exploration, development, and operation of their said interests, insofar as said interests pertain to the following described land (hereinafter called Contract Area) in Eddy County, New Mexico, to-wit:

Limited in depths as to the Unitized Formation as set out in Article 2.2 of the Unit Agreement.

and,

WHEREAS, it is the intent of the parties to file this instrument of Notice in the Deed Records of Eddy County, New Mexico,

NOW, THEREFORE, Hanson Operating Company, Inc. as Unit Operator under the above referenced Unit Operating Agreement and Siete Oil & Gas Corporation et al, as non-operators do hereby grant to each other those rights under the same Agreements regarding lien priorities upon the property described above insofar as said parties' property is covered by the terms of the Unit Operating Agreement and Gas Balancing Agreement outlined herein.

A carbon, photographic or other reproduction of this Notice shall be sufficient as a financing statement.

This instrument shall be binding upon all who execute it (or any counterparts thereof) as well as their successors and assigns, whether or not named in the Unit Operating Agreement referenced above, and without regard to whether this same instrument, or any copy thereof, shall be executed.

Executed this First day of December, 1992.

HANSON OPERATING COMPANY, INC.

By: _____
Ray Willis, Vice-President
Management & Finance

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 1st day of December, 1992, by RAY WILLIS, Vice-President, Management & Finance, of Hanson Operating Company, Inc., a New Mexico corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

EXHIBIT "G"

GAS BALANCING AGREEMENT FORM

Attached to and made a part of Shugart Waterflood Unit,
Hanson Operating Company, Inc., as Operator, Eddy County, New Mexico

In consideration of each party's right to share proportionately in cumulative gas production and of the covenants and agreements herein contained to be kept and performed by each of the parties hereto, the undersigned agree as follows:

1. EFFECTIVE DATE

The effective date of this Agreement shall be the same as the effective date of the above referenced Unit Operating Agreement, unless otherwise specified herein.

2. GENERAL RIGHTS

(a) Right To Take Full Share Of Gas

Each party to the above referenced Unit Operating Agreement has specific rights relating to the taking and disposition of gas (including casinghead gas) produced, including the right to take in kind its share of gas produced from the applicable area and to market or otherwise dispose of same. At any time while said Unit Operating Agreement is in effect, in the event any party is not at any time taking or marketing its share of gas or has contracted to sell its share thereof to one or more purchasers who do not take the party's full share of gas, then the terms of this Agreement shall automatically become effective. Nothing in this Agreement shall deny any party the right to perform any deliverability tests (at that party's sole cost) which may be required under the terms of any contract between such party and its gas purchaser.

(b) Right Of Parties To Take And Produce All Gas

All gas produced from and after the effective date of this Agreement may be utilized or sold by the parties having a use or market for such gas. During any time period in which a party hereto has no market or use for its share of gas or during which its purchaser does not take its full share of gas, then each of the other parties hereto shall be entitled to take, and use or deliver to gas purchasers all such gas. In such event, the parties having a use or market for gas shall be entitled to require that the Operator produce such gas at the greater of the allowable gas production rate assigned to the unit or that which may be from time to time permitted by the regulatory body having jurisdiction, but in no event in excess of the highest rate at which gas can be efficiently produced without causing damage to the well, equip-

ment, pool or formation or resulting in an excessive decline or loss of reservoir energy.

(c) Basis For Balancing Of Production

All balancing shall be made on a wet stream gas basis. The provisions of this Agreement shall be applicable to the entire unit covered by the Unit Operating Agreement.

3. PRODUCTION BALANCING PROCEDURES

(a) Notices Regarding Gas To Be Taken

Prior to the date a party commences initial sale or utilization of gas hereunder, and prior to any resumption thereof following a period during which such party neither sold nor utilized such gas, and prior to any substantial increase in the portion of its share of gas to be sold or utilized by any party to this Agreement, such party shall notify in writing at least thirty (30) days in advance, the Operator and all overproduced parties as shown on the most current monthly balancing statement furnished by the Operator. Such notice shall state the date of such commencement, resumption or increase and the identify of the pipeline connection.

(b) Underproduced Parties' Gas

Each party not taking or marketing its full share of gas shall be credited, on a cumulative basis, with an amount of gas in storage in the reservoir equal to its full share of gas produced under the terms of this Agreement, less such party's share of gas used in lease operations, vented or lost, and less any gas taken by such party or delivered to its purchaser. Such a party, which has an overall cumulative underproduction as described herein, shall be referred to in this Agreement as an underproduced party.

(c) Gas Utilization And Balancing Statements

During the term hereof each party hereto shall, on a monthly basis within thirty (30) days following the end of each calendar month, furnish or cause to be furnished to the Operator a statement showing the volume of gas sold and/or utilized by said party during the immediately preceding month. The Operator in turn shall, not later than forty-five (45) days following the end of each calendar month furnish to each party a monthly balancing statement showing the status of the over and short accounts for gas utilization by all of the parties, based upon the Operator's records and most current monthly statements furnished by the parties hereto.

(d) "In-Kind" Balancing Of Gas Production Accounts

Subject to the restrictions hereinafter contained, each underproduced party shall have the right at any time and from time to time to request and take that percentage as stated below of its proportionate share of the current gas production from the unit to "in-kind" balance its gas production account.

(1) Notification to Operator and Overproduced Parties

The request of an underproduced party to take gas in addition to its proportionate share to balance its account shall be given in writing, in accordance with the notice provisions of this Agreement, at least thirty (30) days in advance to the Operator and to all those parties identified as being overproduced on the most current monthly balancing statement provided by the Operator. If an overproduced party is not so notified in accordance with the notice provisions of this Agreement of an underproduced party's request to take additional volumes of gas, which notice shall be in addition to any other notice required under this Agreement, said overproduced party's allocation shall not be affected by such a request.

(2) "Peak" and "Offpeak" Balancing Limitations

Subject to Paragraph 3.(e) hereof, upon giving the hereinabove required notices, each underproduced party shall, in addition to its proportionate share of gas from the unit, be entitled to produce and take during any "peak" month an amount of gas equal to one hundred twenty percent (120%) {or during any "offpeak" month an amount of gas equal to one hundred fifty percent (150%)} of the underproduced parties' proportionate share of gas production therefrom. For purposes of this Agreement, "peak" months shall be the months of November, December, January, February and March, and "nonpeak" months shall be all other months of the year. During "peak" months, any overproduced party, at its sole option, may make available to any underproduced party or parties, gas in excess of the additional one hundred twenty percent (120%) provided for hereinabove.

(e) Production Balancing By Multiple Underproduced Parties

If at any time more than one underproduced party is taking in excess of its share of gas from the unit in order to balance its gas production account, then in that event each of the underproduced parties shall be entitled to a share of the gas production therefrom, made available by the overproduced party or parties in the ratio that the underproduction of each such underproduced party bears to the total underproduction of all such underproduced parties.

(f) Maximum Gas Available For "In-Kind" Production Balancing

Notwithstanding any provision to the contrary contained in this Agreement, the rights of each underproduced party to take gas in addition to its proportionate share for purposes of balancing its production account shall be subordinate to the right of each overproduced party to take, during any calendar month, a volume of gas not less than sixty-six and two-thirds percent (66-2/3%) of such overproduced party's share of gas from the unit.

(g) Order of Balancing

All "in-kind" balancing of production accounts shall be on such basis that additional volumes of gas taken by an underproduced party shall be first credited against each overproduced party's oldest unbalanced overproduction, unless otherwise agreed by the underproduced and overproduced parties involved.

4. SHARING LIQUIDS AND CONDENSATES

The parties hereto shall share in and own all liquid hydrocarbons recovered from such gas by lease separators and traps in accordance with their respective interests and subject to the Unit Operating Agreement to which this Agreement is attached or to which reference is made herein. Condensates and liquids recovered by other means, including but not limited to liquids recovered as a result of processing gas in gas plants or use of refrigeration units, shall be owned by the party taking the gas from which such liquids are recovered.

5. CASH BALANCING PROCEDURES

(a) General Provisions

1. Method and Basis of Cash Balancing

In making any cash balancing settlement of production accounts hereunder each underproduced party will be paid a sum of money by each overproduced party as hereinafter provided, with the Operator acting as the conduit for all such payments between the parties. Because gas prices tend to fluctuate, it is agreed that any underproduction credit against any overproduced party shall be credited against the overproduction of such party in the order of accrual. Each underproduced party will be paid a sum of money by the overproduced party equal to the amount received by such overproduced party for the overproduction including adjustment for BTU content and revenue, if any, due to liquids saved and sold as a part of the settlement price less costs accrued off lease and borne by the overproduced party in marketing, treating, processing, transporting, gathering, compressing, dehydrating or storing said gas and less all applicable taxes paid by such over-

produced party or parties. In no event shall the overproduced party be required to make a cash settlement at a price greater than the amount it received, less the aforementioned deductions. Payments by each overproduced party to the Operator shall be made within thirty (30) days following the issuance by the Operator of the final balancing statement upon which settlement of over and short accounts is to be made hereunder. Payments by the Operator to underproduced parties shall be made within thirty (30) days after its receipt of all such payments from all overproduced parties. Except to the extent of any Operator's lien as provided in the Unit Operating Agreement to which this Agreement is attached or any interest therein of the Operator as an underproduced party, the Operator shall be merely a stakeholder as to payments made to it by overproduced parties for transfer to underproduced parties and Operator shall have no ownership interest in such funds.

(2) Valuation Where Not All Overproduced Gas Was Sold

In the event an overproduced party sells only part of the gas taken by such party then for the purpose of any cash balancing, gas taken but not sold by such overproduced party shall be valued at the sales price received, less the aforementioned deductions, for gas sold by such party during the month in which such overproduction occurred.

(3) Valuation Of Overproduced Gas Sold Under Multiple Contracts

In the event an overproduced party has sold gas under more than one contract, payment to any underproduced party therefor shall be on the basis of the volume weighted average price received by the overproduced party under all such contracts.

(4) Valuation Of Overproduced Gas Where None Was Sold

During periods in which an overproduced party took all its gas and made no sales, the gas shall be valued for the purposes of this provision at the lesser of the price such overproduced party could have received for such gas if it had been actually sold and delivered under such overproduced party's gas contract, if any, or the volume weighted average price received for simultaneous sale from the unit made by other parties to this Agreement. In the event an overproduced party took gas during a period when it did not have a gas contract and when no other party to this Agreement took gas from the unit, then such gas shall be valued at the Market Value for similar gas. "Market Value" shall mean the average of the interstate and intrastate wellhead spot sales prices covering the first full week of the month for the area

from which the production occurred as set forth in the "Gas Price Trends" section of Natural Gas Week, published by The Oil Daily, Inc. (or any successor to such section or publication), or a mutually agreeable similar gas price publication should the same either 1) fail to include prices necessary to calculate Market Value or 2) cease to be published.

(5) Monies Subject To Refund Under Regulatory Order

If any portion of a price used to determine value or "Market Value" is or has been collected subject to refund upon order of the Federal Energy Regulatory Commission (FERC) or other regulatory agency having jurisdiction thereover, unless the underproduced party furnishes a corporate undertaking agreement or indemnity bond acceptable to the overproduced party to hold the overproduced party harmless from financial loss, including interest at FERC prescribed rates, due to action by the FERC, then that portion of the price subject to refund shall be withheld by the overproduced party and shall not be paid unless and until such refundable portion of said price is ultimately approved by the FERC and no longer subject to further appeal.

(b) Final Cash Balancing

Should production of gas from the unit be permanently discontinued at a point in time when the parties hereto are not in balance, then in that event upon issuance by the Unit Operator of the final balancing statement for the unit, a cash settlement will be made between the underproduced and overproduced parties according to the terms and on the basis hereinabove provided.

6. PAYMENT OF ROYALTIES, PRODUCTION TAXES AND OPERATING EXPENSES

(a) Royalties

Unless otherwise required by any State or Federal law or regulation, each party hereto will pay royalties on gas production to the respective royalty owners to whom they are accountable and in accordance with their respective agreements with those royalty owners, just as if each party were taking or delivering to a purchaser its share, and only its share, of total gas production. The term "royalty" shall include royalties, overriding royalties, production payments, net profits interests, carried working interests, and any similar burdens.

(b) Production Taxes

Unless otherwise required by any State or Federal law or regulation, each party producing and taking or delivering gas to

its purchaser, or otherwise disposing of gas, shall pay any and all production taxes due on such gas.

(c) Operating Expenses And Operator's Lien

Operating expenses are to be borne as provided in the Unit Operating Agreement to which this Agreement is attached regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to percentage ownership. Nothing in this Agreement shall alter or diminish any lien rights granted to Unit Operator by the Unit Operating Agreement to which this Agreement is attached.

7. RECORDS REQUIREMENTS AND AUDIT RIGHTS

(a) Records Retention

Each overproduced party shall maintain, in accordance with accepted accounting methods, standards and procedures, and for the purposes of the herein referenced audit or audits, accurate and complete records for the unit on volumes of gas sold or utilized, BTU content, prices received and all other matters necessary or relevant to ensuring a balancing of production accounts in accordance with the provisions, purposes and intent of this Agreement. No party shall be required to retain volume charts for any period in excess of two (2) years from the date of production. Except as otherwise provided herein, such records shall be kept by each overproduced party as to its cumulative overproduction until two (2) years after all underproduced parties have agreed to or accepted the balancing of production accounts with such overproduced party or parties as to the overproduction covered by such records.

(b) Audits By Underproduced Parties

Subject to the provisions hereinafter set out, at any time, and from time to time, the underproduced parties shall have the right to designate a representative to audit the Unit Operator's and any or all overproduced parties' records pertaining to gas sold or utilized by such overproduced party or parties during the time or times such overproduction occurred, which records shall include, but shall not be limited to, information on the volumes and values received by the overproduced party or parties, including pricing provisions in sales contracts of overproduced parties.

8. TERMINATION

This Agreement shall terminate when gas production from all formations covered by the Unit Operating Agreement has been permanently discontinued and all gas production accounts have been balanced according to the provisions of this Agreement, or when the Unit Operating Agreement terminates, whichever is later.

9. INDEMNITY

Each party hereby agrees to indemnify, defend and hold harmless the other parties hereto against all liability and claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party arising out of the operation of this Agreement or activities of the indemnifying party under its provisions, and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred, including attorney's fees, in connection therewith.

10. SUCCESSION AND ASSIGNMENT

(a) Notification of Transferee

The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, representatives, successors and assigns. The parties hereto agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject both to the Unit Operating Agreement and to the terms of this Agreement. Unless prior to such transfer a cash settlement has been made as to all unbalanced production from the unit subject to the transfer of interest, any transfer by an overproduced party of all or any part of its interest therein shall expressly provide for full assumption by the transferee of all then existing obligations of the transferor to underproduced parties, including all unsatisfied cash settlement obligations for overproduction. Such assumption by the transferee shall not relieve the transferor of any obligations for transfer's unbalanced overproduction nor shall the failure or omission of any underproduced party to require a cash settlement in accordance with this Agreement constitute a waiver of such party's rights to a balancing of such underproduction in accordance with this Agreement.

(b) Notice To Parties And Optional Cash Balancing

Upon any sale, assignment or other disposition, hereinafter called "transfer", by an overproduced party (other than through mergers or reorganizations) of all or any part of its interest in the unit, such party shall give notice thereof to the Unit Operator and to all underproduced parties at least ninety (90) days prior to the anticipated closing date of the transfer. Each underproduced party so notified shall have until thirty (30) days prior to the later of the anticipated closing date or the actual closing date of the transfer within which to notify the overproduced party of its election to receive a cash settlement for its share of the overproduced party's overproduction on the same basis as though the unit subject to the transfer of interest had permanently ceased production. In the event the overproduced party making the transfer should fail to notify an underproduced party as re-

quired above, then any underproduced party not so notified shall have a lien upon the interest transferred in the amount of the cash settlement to which the underproduced party would otherwise have been entitled, which lien shall be subordinate only to any valid Unit Operator's lien provided for in the Unit Operating Agreement to which this Agreement is attached, and which lien shall not be in lieu or waiver of any other legal rights of such underproduced party, who shall have a cause of action against and be entitled to recover from such overproduced party and his transferee, or either of them, such cash settlement amount, plus costs, attorney's fees and interest at the highest legal rate from the date of the transfer, in addition to exercising rights under the lien herein granted.

11. NOTICES

All requests and notices hereunder shall be given separately as to each matter for which the same is required, in writing, within the time limits specified, by certified mail return receipt requested, postage prepaid and properly addressed to the party to whom the request or notice is to be directed at the address shown in the Schedule of Addresses attached hereto. In the event any party fails or omits to specify an address for receipt of such requests and notices, then any such request or notice shall be effective if given at the address for that party as shown in the Unit Operating Agreement to which this Agreement is attached and if no such address is shown in the Unit Operating Agreement, then at the address for such party as shown in the records of the Unit Operator. Requests or notices shall be deemed given upon the date the same is deposited in the United States Mails as hereinabove provided.

Any party hereto may designate a different address for the receipt of requests or notices by advising the other parties hereto of such change of address in writing in the same manner as that designated for giving requests and notices above. All parties may rely upon a certified mail return receipt as conclusive evidence of the giving of any request or notice transmitted therewith.

12. CAPTIONS AND HEADINGS

The captions and headings used in this Agreement are included only for the convenience of the parties and shall not be deemed to limit, increase or control the meaning or interpretation of the provisions of this Agreement.

SCHEDULE OF ADDRESSES

GAS BALANCING AGREEMENT FORM

Attached to and made a part of that certain Unit Operating
Agreement dated December 1, 1992
Shugart Waterflood Unit, Eddy County, New Mexico

For notices of intent to make-up gas or gas in-kind, the following address
applies:

HANSON OPERATING COMPANY, INC.
Post Office Box 1515
Roswell, New Mexico 88202-1515

For Balancing Statements issued by the Unit Operator and Production Volume
Statements issued by Purchasers, the following address applies:

HANSON OPERATING COMPANY, INC.
Post Office Box 1515
Roswell, New Mexico 88202-1515