

ENERQUEST

ENERQUEST OIL & GAS, LLC

February 22, 20002

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, NM 87505

Case 12846

RECEIVED
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Re: Application of EnerQuest Resources, LLC for Enhanced Oil Recovery Project
Qualification for the Recovered Oil Tax Rate for the East Hobbs (San Andres)
Unit, Lea County, New Mexico.

Dear Ms. Wrotenbery:

EnerQuest Resources, LLC hereby makes application to qualify the East Hobbs (San Andres) Unit for the recovered oil tax rate as authorized by the Enhanced Oil Recovery Act. EnerQuest Resources, LLC plans to commence drilling, recompletions, and conversions of wells to implement a waterflood project in this unit and is making application pursuant to the rules promulgated by Commission Order No. R-9708 entered on August 27, 1992.

In accordance with Order No. R-9789, EnerQuest Resources provides the following information:

A. Operator's name and address:

EnerQuest Resources, LLC
P. O. Box 11190
Midland, TX 79702

B. Description of the Project Area:

1. A plat showing the project area is attached hereto as Exhibit A.
2. Description of the Project Area:

TOWNSHIP 18 SOUTH, RANGE 39 EAST, NMPM

Section 29: SW/4, SW/4 of NW/4
Section 30: S/2, S/2 of N/2
Section 31: N/2 of N/2
Section 32: N/2 of NW/4

3. Total Acres in project area: 920.00

4. Name of the subject pool and formation:

East Hobbs (San Andres) Pool
San Andres formation

C. Status of operations in the project area:

The area which is the subject of this application is currently being developed with primary production operations.

D. Method of Recovery to be used:

Injection fluids: waterflood

E. Description of Project:

1. List of producing wells: Exhibit B attached hereto

2. List of injection wells: Exhibit B attached hereto

3. Capital cost of additional facilities: \$7.2 million

4. Total project costs: \$7.2 million

5. Estimated total value of the additional production that will be recovered as a result of the project expansion: An additional 3.5 million barrels valued at \$10.7 million.

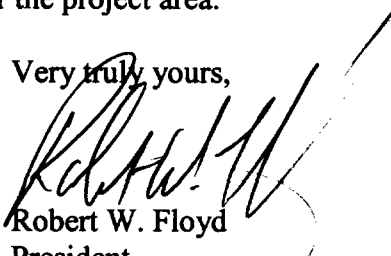
6. Anticipated date for the commencement of injection: April 2002 or ASAP

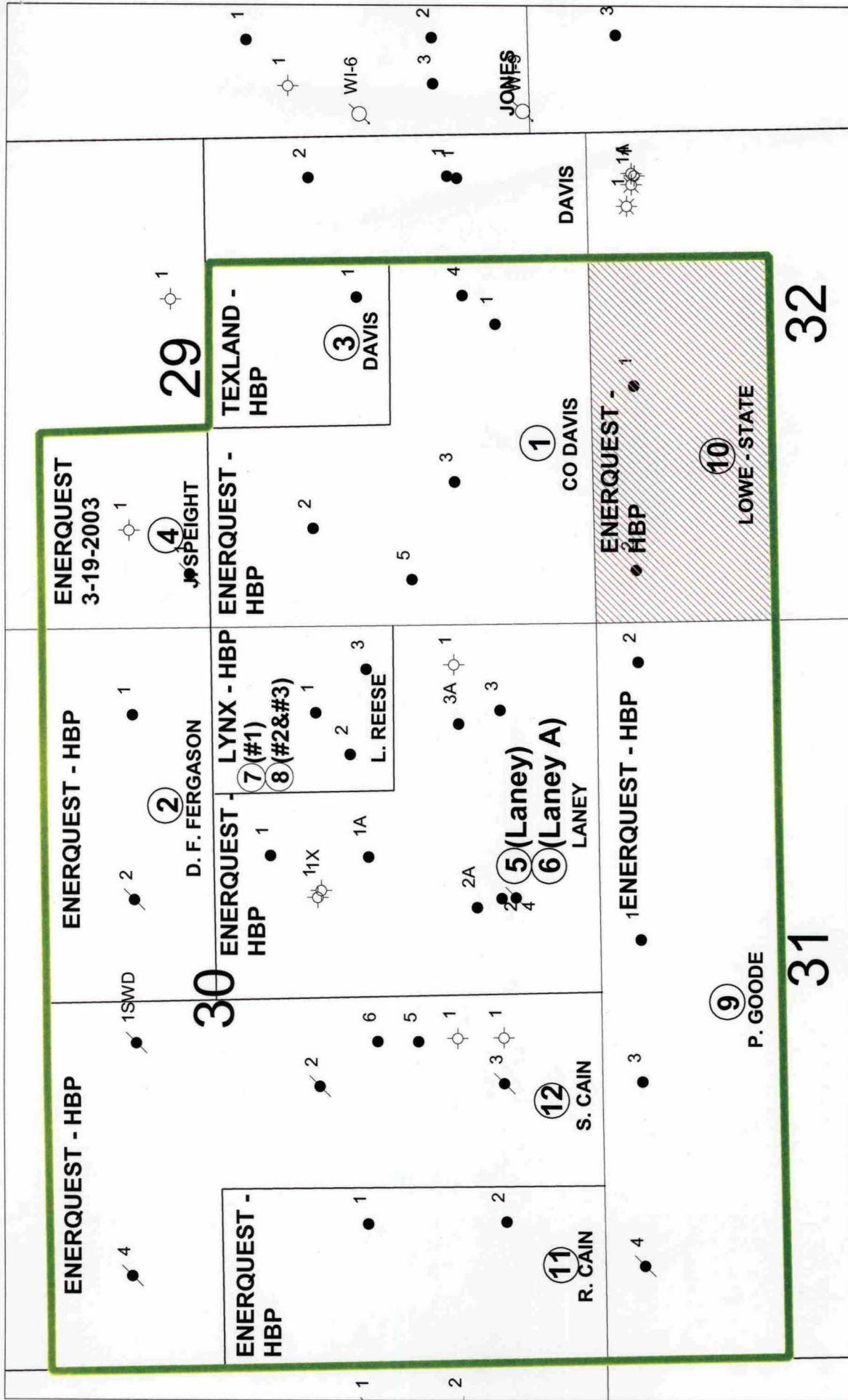
7. Type of fluid to be injected and the anticipated volume: Water will be injected at an anticipated daily rate of 8,000 barrels in the project area.

F. Project History and Forecast:

See the production curve marked as Exhibit C which shows the production history and forecast, respectively, for the project area.

Very truly yours,


Robert W. Floyd
President
EnerQuest Resources, LLC



ENERQUEST RESOURCES, LLC

EAST HOBBS (SAN ANDRES) UNIT
920 ACRES
 Lea County, New Mexico
 T18S - R39E

Project:	Date: 1 Jan, 2002	Geologist:
Area:	Scale: 1"=1000'	Geophysicist:
Prospect:	C.I.:	Engineer:

State Lands 80 acres (8.7%)

Patented Lands 840 acres (91.3%)

3

Tract Number

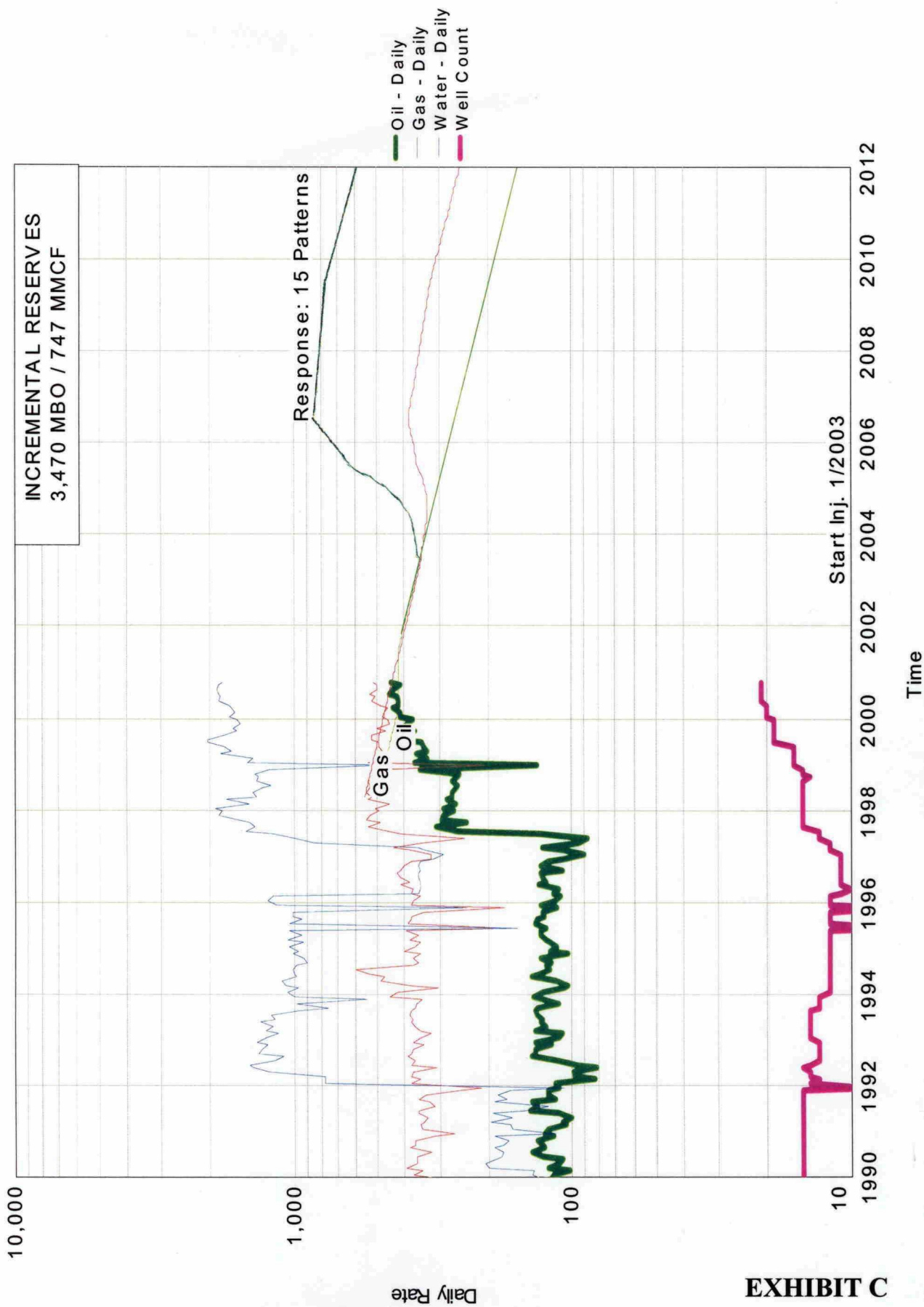
Unit Outline

EXHIBIT A

ENERQUEST RESOURCES LLC - EAST HOBBS (SAN ANDRES) UNIT
List of Producing and Injection Wells

Unit Tract #	Section	Spacing Unit	ORIGINAL		REDESIGNATED		WELL STATUS		
			LEASE NAME	Well #	UNIT NAME	Well #	Phase I	Phase II	Phase III
3	29	K	Davis	1	East Hobbs Unit	301	Producer	Producer	Producer
1	29	L	Davis Carrie O	2	East Hobbs Unit	102	Producer	Producer	Producer
1	29	M	Davis Carrie O	5	East Hobbs Unit	105	Producer	Producer	Producer
1	29	N	Davis Carrie O	1	East Hobbs Unit	101	Producer	Producer	Producer
12	30	F	Cain Samuel	1	East Hobbs Unit	1201W	SWD	SWD	Injector
2	30	H	Ferguson DF	1	East Hobbs Unit	201	Producer	Producer	Producer
7	30	I	Laney Reese	1	East Hobbs Unit	701	Producer	Producer	Producer
8	30	I	Laney Reese	2	East Hobbs Unit	802	Producer	Producer	Producer
8	30	I	Laney Reese	3	East Hobbs Unit	803	Producer	Producer	Producer
5	30	J	Laney	1	East Hobbs Unit	501	Producer	Producer	Producer
6	30	J	Laney 'A'	1	East Hobbs Unit	601	Producer	Producer	Producer
12	30	K	Cain Samuel	6	East Hobbs Unit	1206W	SI	Injector	Injector
12	30	N	Cain Samuel	5	East Hobbs Unit	1205	Producer	Producer	Producer
5	30	O	Laney	2	East Hobbs Unit	502	Producer	Producer	Producer
6	30	O	Laney 'A'	2	East Hobbs Unit	602	Producer	Producer	Producer
5	30	P	Laney	3	East Hobbs Unit	503	Producer	Producer	Producer
6	30	P	Laney 'A'	3	East Hobbs Unit	603	Producer	Producer	Producer
9	31	A	Goode Pearl	2	East Hobbs Unit	902	Producer	Producer	Producer
9	31	B	Goode Pearl	1	East Hobbs Unit	901	Producer	Producer	Producer
9	31	C	Goode Pearl	3	East Hobbs Unit	903	Producer	Producer	Producer
10	32	C	Lowe-State	1	East Hobbs Unit	1001	Producer	Producer	Producer
10	32	D	Lowe-State	2	East Hobbs Unit	1002	Producer	Producer	Producer
11	30	L	Rocket Cain	1	East Hobbs Unit	1101	Producer	Producer	Producer
11	30	M	Rocket Cain	2	East Hobbs Unit	1102	Producer	Producer	Producer
6	30	O	New Inj. Ph. I	-	East Hobbs Unit	604W	Injector	Injector	Injector
6	30	O	New Inj. Ph. I	-	East Hobbs Unit	605W	Injector	Injector	Injector
6	30	P	New Inj. Ph. I	-	East Hobbs Unit	606W	Injector	Injector	Injector
6	30	P	New Inj. Ph. I	-	East Hobbs Unit	607W	Injector	Injector	Injector
1	29	M	New Prod. Ph. II	-	East Hobbs Unit	106	-	Producer	Producer
1	29	M	New Inj. Ph. II	-	East Hobbs Unit	107W	-	Injector	Injector
1	29	M	New Inj. Ph. II	-	East Hobbs Unit	108W	-	Injector	Injector
1	29	L	New Inj. Ph. II	-	East Hobbs Unit	109W	-	Injector	Injector
2	30	H	New Inj. Ph. II	-	East Hobbs Unit	202W	-	Injector	Injector
12	30	N	New Inj. Ph. II	-	East Hobbs Unit	1207W	-	Injector	Injector
2	30	G	New Prod. Ph. III	-	East Hobbs Unit	203	-	-	Producer
12	30	K	New Prod. Ph. III	-	East Hobbs Unit	1208	-	-	Producer
12	30	N	New Prod. Ph. III	-	East Hobbs Unit	1209	-	-	Producer
1	29	K	New Inj. Ph. III	-	East Hobbs Unit	110W	-	-	Injector
1	29	N	New Inj. Ph. III	-	East Hobbs Unit	111W	-	-	Injector
2	30	H	New Inj. Ph. III	-	East Hobbs Unit	204W	-	-	Injector
12	30	K	New Inj. Ph. III	-	East Hobbs Unit	1210W	-	-	Injector
11	30	M	New Inj. Ph. III	-	East Hobbs Unit	1103W	-	-	Injector
12	30	N	New Inj. Ph. III	-	East Hobbs Unit	1211W	-	-	Injector
12	30	N	New Inj. Ph. III	-	East Hobbs Unit	1212W	-	-	Injector
9	31	A	New Inj. Ph. III	-	East Hobbs Unit	904W	-	-	Injector

EAST HOBBS WATERFLOOD – FULL SCALE PREDICTION



APPLICATION FOR AUTHORIZATION TO INJECT

I. PURPOSE: X Secondary Recovery Pressure Maintenance Disposal Storage
Application qualifies for administrative approval? Yes X No

II. OPERATOR: ENERQUEST RESOURCES, LLC

ADDRESS: P.O. Box 11190, Midland, TX 79702

CONTACT PARTY: Chris Bezner, Sr. Petr. Engineer PHONE: 915-685-3116

III. WELL DATA: Complete the data required on the reverse side of this form for each well proposed for injection. Additional sheets may be attached if necessary.

IV. Is this an expansion of an existing project? _____ Yes _____ **X** _____ No
If yes, give the Division order number authorizing the project: _____

V. Attach a map that identifies all wells and leases within two miles of any proposed injection well with a one-half mile radius circle drawn around each proposed injection well. This circle identifies the well's area of review.

VI. Attach a tabulation of data on all wells of public record within the area of review which penetrate the proposed injection zone. Such data shall include a description of each well's type, construction, date drilled, location, depth, record of completion, and a schematic of any plugged well illustrating all plugging detail.

VII. Attach data on the proposed operation, including:

1. Proposed average and maximum daily rate and volume of fluids to be injected;
2. Whether the system is open or closed;
3. Proposed average and maximum injection pressure;
4. Sources and an appropriate analysis of injection fluid and compatibility with the receiving formation if other than reinjected produced water; and,
5. If injection is for disposal purposes into a zone not productive of oil or gas at or within one mile of the proposed well, attach a chemical analysis of the disposal zone formation water (may be measured or inferred from existing literature, studies, nearby wells, etc.).

***VIII. Attach appropriate geologic data on the injection zone including appropriate lithologic detail, geologic name, thickness, and depth. Give the geologic name, and depth to bottom of all underground sources of drinking water (aquifers containing waters with total dissolved solids concentrations of 10,000 mg/l or less) overlying the proposed injection zone as well as any such sources known to be immediately underlying the injection interval.**

IX. Describe the proposed stimulation program, if any.

*X. Attach appropriate logging and test data on the well. (If well logs have been filed with the Division, they need not be resubmitted).

*XI. Attach a chemical analysis of fresh water from two or more fresh water wells (if available and producing) within one mile of any injection or disposal well showing location of wells and dates samples were taken.

XII. Applicants for disposal wells must make an affirmative statement that they have examined available geologic and engineering data and find no evidence of open faults or any other hydrologic connection between the disposal zone and any underground sources of drinking water.

XIII. Applicants must complete the "Proof of Notice" section on the reverse side of this form.

XIV. Certification: I hereby certify that the information submitted with this application is true and correct to the best of my knowledge and belief.

and belief.

NAME: **Robert W. Floyd**
President

NAME: President TITLE:

SIGNATURE: [Signature] DATE: 2/21/02

* If the information required under Sections VI, VII, X, and XI above has been previously submitted, it need not be resubmitted. Please show the date and circumstances of the earlier submittal:

III. WELL DATA

A. The following well data must be submitted for each injection well covered by this application. The data must be both in tabular and schematic form and shall include:

- (1) Lease name; Well No.; Location by Section, Township and Range; and footage location within the section.
- (2) Each casing string used with its size, setting depth, sacks of cement used, hole size, top of cement, and how such top was determined.
- (3) A description of the tubing to be used including its size, lining material, and setting depth.
- (4) The name, model, and setting depth of the packer used or a description of any other seal system or assembly used.

Division District Offices have supplies of Well Data Sheets which may be used or which may be used as models for this purpose. Applicants for several identical wells may submit a "typical data sheet" rather than submitting the data for each well.

B. The following must be submitted for each injection well covered by this application. All items must be addressed for the initial well. Responses for additional wells need be shown only when different. Information shown on schematics need not be repeated.

- (1) The name of the injection formation and, if applicable, the field or pool name.
- (2) The injection interval and whether it is perforated or open-hole.
- (3) State if the well was drilled for injection or, if not, the original purpose of the well.
- (4) Give the depths of any other perforated intervals and detail on the sacks of cement or bridge plugs used to seal off such perforations.
- (5) Give the depth to and the name of the next higher and next lower oil or gas zone in the area of the well, if any.

XIV. PROOF OF NOTICE

All applicants must furnish proof that a copy of the application has been furnished, by certified or registered mail, to the owner of the surface of the land on which the well is to be located and to each leasehold operator within one-half mile of the well location.

Where an application is subject to administrative approval, a proof of publication must be submitted. Such proof shall consist of a copy of the legal advertisement which was published in the county in which the well is located. The contents of such advertisement must include:

- (1) The name, address, phone number, and contact party for the applicant;
- (2) The intended purpose of the injection well; with the exact location of single wells or the Section, Township, and Range location of multiple wells;
- (3) The formation name and depth with expected maximum injection rates and pressures; and,
- (4) A notation that interested parties must file objections or requests for hearing with the Oil Conservation Division, 1220 South St. Francis Dr., Santa Fe, New Mexico 87505, within 15 days.

NO ACTION WILL BE TAKEN ON THE APPLICATION UNTIL PROPER PROOF OF NOTICE HAS BEEN SUBMITTED.

NOTICE: Surface owners or offset operators must file any objections or requests for hearing of administrative applications within 15 days from the date this application was mailed to them.

WELL DATA - APPLICATION FOR AUTHORIZATION TO INJECT

Casing			Production Casing					Injection String and Packer				
Size, in.	Cmt. Top	Method	OD, in.	Depth, ft.	Cement	Hole, in.	Cmt. Top	Method	OD, in.	Depth, ft.	Packer	Depth
2.25"	Surface	Reported	5.5"	4675'	485 sx	7.875"	1900'	Logged	2.375"	4350'	AD-1**	4350'
2.25"	Surface	Reported	5.5"	4675'	485 sx	7.875"	1900'	Logged	2.375"	4350'	AD-1**	4350'
2.25"	Surface	Reported	5.5"	4675'	485 sx	7.875"	1900'	Logged	2.375"	4350'	AD-1**	4350'
2.25"	Surface	Reported	5.5"	4675'	485 sx	7.875"	1900'	Logged	2.375"	4350'	AD-1**	4350'

not been staked yet. Locations will be approximately as shown on the attached map.

Perf	Original Purpose	Other Intervals	Isolation Method
rf	Injection	None	N/A
rf	Injection	None	N/A
rf	Injection	None	N/A
rf	Injection	None	N/A

on the east side of the proposed unit. The Blinebry occurs at approximately 6400'.
depth of about 3800'.

INJECTION WELL DATA SHEETOPERATOR: ENERQUEST RESOURCES, LLCWELL NAME & NUMBER: TYPICAL INJECTION WELL - EAST HOBBS (SAN ANDRES) UNIT

WELL LOCATION: (SEE ATTACHED TABLE)	UNIT LETTER	SECTION	TOWNSHIP	RANGE
(SEE ATTACHED TABLE)		30	18S	38E

WELLSBORE SCHEMATICWELL CONSTRUCTION DATASurface Casing

Hole Size: 12-1/4" Casing Size: 8-5/8" ft³

Cemented with: 850 sx. or

Top of Cement: Surface Method Determined: Reported

Total Depth: 1920'

12-1/4" hole @ 1920'
8-5/8" csg, cmt to
surface with 850 sx.

Intermediate Casing

Hole Size: NOT APPLICABLE Casing Size: _____

Cemented with: _____ sx. or

Top of Cement: _____ Method Determined: _____

Total Depth: _____

2-3/8" EUE J-55 coated
tubing

Production Casing

Hole Size: 7-7/8" Casing Size: 5-1/2" ft³

Cemented with: 485 sx. or

Top of Cement: 1900' Method Determined: Logged

Total Depth: 4675'

Proposed Baker AD-1
pkr @ 4350' ±

Proposed San Andres perms
4440'-4650'
Acidize w/ 3000 gal 15%
HCl Acid.

Injection Interval

Perforated 4440' feet to Perforated 4650'

7-7/8" hole @ 4675', 5-1/2" csg, cmt
w/ 485 sx. TOC @ 1900' (logged)

(Perforated or Open Hole; indicate which)

INJECTION WELL DATA SHEETTubing Size: 2-3/8" EUE J-55 Lining Material: plastic coated or fiberglass linedType of Packer: Baker Model AD-1 (or equivalent)Packer Setting Depth: 4350' ±

Other Type of Tubing/Casing Seal (if applicable): _____

Additional Data:1. Is this a new well drilled for injection? X Yes No

If no, for what purpose was the well originally drilled? _____

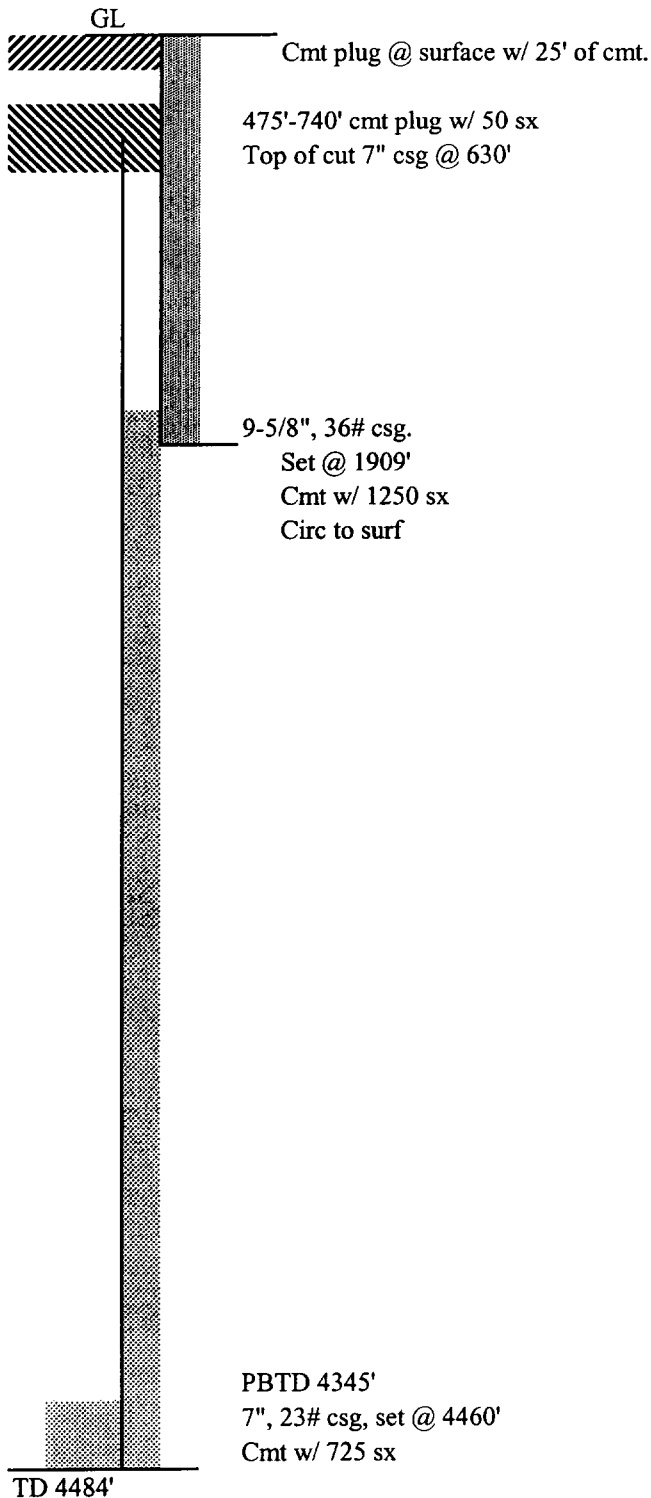
2. Name of the Injection Formation: San Andres3. Name of Field or Pool (if applicable): East Hobbs (San Andres)4. Has the well ever been perforated in any other zone(s)? List all such perforated intervals and give plugging detail, ie sacks of cement or plug(s) used. NO5. Give the name and depths of any oil or gas zones underlying or overlying the proposed injection zone in this area: The Blinebry formation is productive and underlies the proposed injection zone on the eastside of the proposed unit. The Blinebry occurs at approximately 6400'. The Seven Rivers formation is productive above the San Andres in areas at a depth of about 3800'.

A ON WELLS IN REVIEW AREA - APPLICATION FOR AUTHORIZATION TO INJECT

WELL ID	Driller TD	Surface Casing			Intermediate Casing			Production Casing			Upper Perf	Lower Perf	Reservoir
		Size in.	Depth	Cement sx Cl C	Size in.	Depth	Cement sx Cl C	Size in.	Depth	Cement sx Cl C			
3/1953	4,484	9.625	1,909	1,250				7.000	4,460	625			
3/1953	4,462	9.625	1,735	800				5.500	4,442	200	4,442	4,462	San Andres
3/1953	4,458	13.375	275	200	8.625	1,866	300	5.500	4,444	175	4,444	4,458	San Andres
3/1953	4,698	8.625	496	550				5.500	4,419	1,850	4,419	4,698	San Andres
1/1953	4,471	8.625	502	500				5.500	4,421	1,150	4,421	4,471	San Andres
7/1997	4,710	8.625	1,920	775				5.500	4,710	615	4,488	4,645	San Andres
2/1987	6,500	8.625	1,860	1,200				5.500	6,500	1,600	6,370	6,425	Blinbry
1/1951	4,697	8.625	508	485				5.500	4,424	750	4,424	4,697	San Andres
3/1953	4,475	8.625	1,895	900				5.500	4,474	1,200	4,462	4,474	San Andres
3/1953	4,470	9.625	1,907	1,400				7.000	4,470	450	4,452	4,462	San Andres
2/1953	4,470	9.625	1,910	1,400				7.625	4,470	400	4,396	4,433	San Andres
3/1953	4,463	7.625	1,726	800				5.500	4,410	200	4,410	4,463	San Andres
3/1999	4,615	8.625	1,920	775				5.500	4,615	585	4,571	4,601	San Andres
3/1999	4,627	8.625	1,911	825				5.500	4,627	585			
1/1953	4,445	8.625	1,818	720				5.500	4,390	500	4,390	4,445	San Andres
1/1998	4,623	8.625	1,830	930				5.500	4,615	485	4,568	4,610	San Andres
1/1970	7,512												
1/1972	10,240	13.375	344	375	9.625	3,150	150						
1/1999	4,625	8.625	1,918	825				5.500	4,625	585	4,531	4,614	San Andres
1/1953	4,479	8.625	1,898	900				5.500	4,478	1,200	4,450	4,462	San Andres
1/1970	320												
1/1997	4,722	8.625	1,860	725				5.500	4,716	615	4,480	4,578	San Andres
1/1975	3,850	8.625	364	275				4.500	3,850	250			
1/1953	4,465	8.625	1,903	900				5.500	4,465	1,100	4,441	4,463	San Andres
1/1953	4,455	7.625	1,800	800				5.500	4,405	500	4,405	4,455	San Andres
1/1974	3,831	8.625	361	250				4.500	3,827	200	3,784	3,798	7 Rivers
1/1999	4,615	8.625	1,925	825				5.500	4,615	485	4,499	4,603	San Andres
1/1953	4,459	8.625	1,820	800				5.500	4,405	500	4,405	4,459	San Andres
1/2000	4,626	8.625	1,910	845				5.500	4,623	485	4,576	4,607	San Andres
1/1984	8,000	9.625	1,876	800				7.000	7,961	875			
1/1953	4,459	7.625	1,830	700				5.500	4,430	200	4,430	4,459	San Andres
1/1953	4,452	10.750	333	200				7.000	4,435	400	4,435	4,452	San Andres
1/1953	4,502	9.625	325	200				5.500	4,502	400	4,459	4,465	San Andres
1/1952	6,525	9.625	494	350									
1/1953	4,470	7.875	1,902	400				5.500	4,424	250	4,424	4,470	San Andres
1/1953	4,468	8.625	1,854	700				5.500	4,421	200	4,421	4,468	San Andres

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.: BROWNING #1 Operator: PHILLIPS PETROLEUM CO.
Location: 1980' FNL, 660' FWL, SEC. 29, T-18-S, R-39-E
County: LEA State: NM API #: 30-025-07946
GR Elev: 3605' + KB of ft = 0 ft KB Elevation

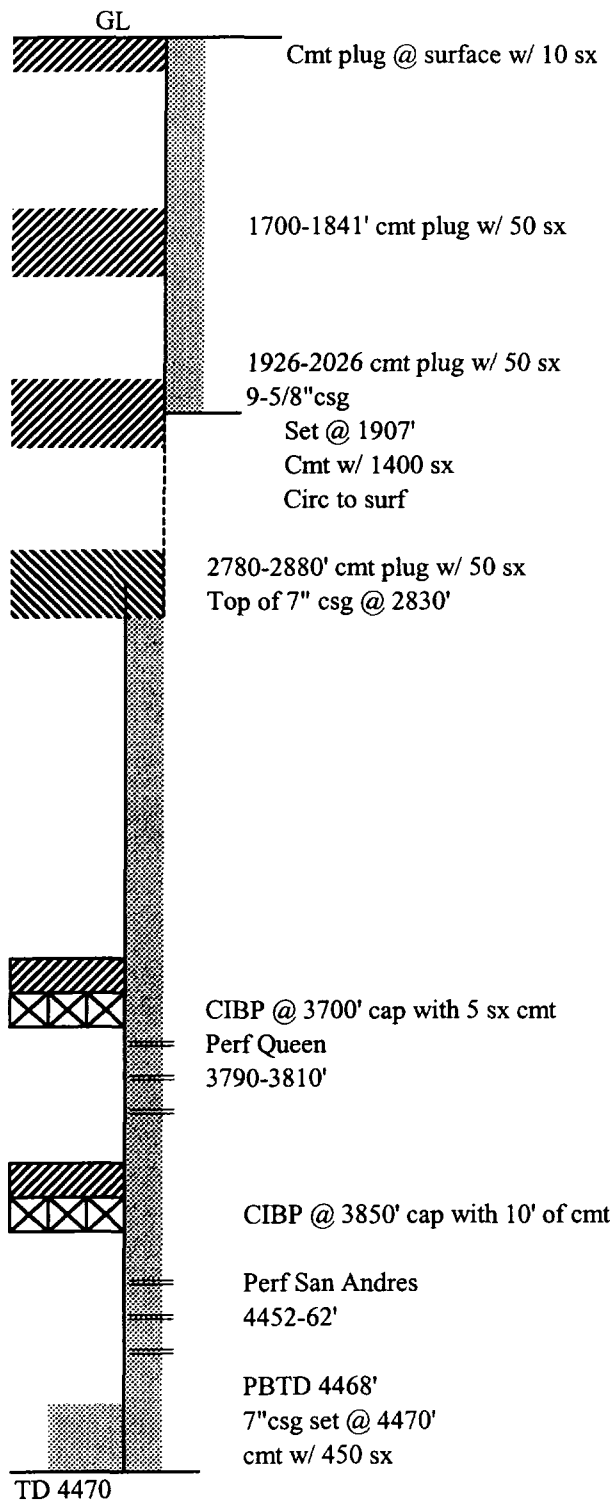
**WELL HISTORY:**

Spud 6/26/53
Rig Rlse. P&A'd well 9/13/53

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

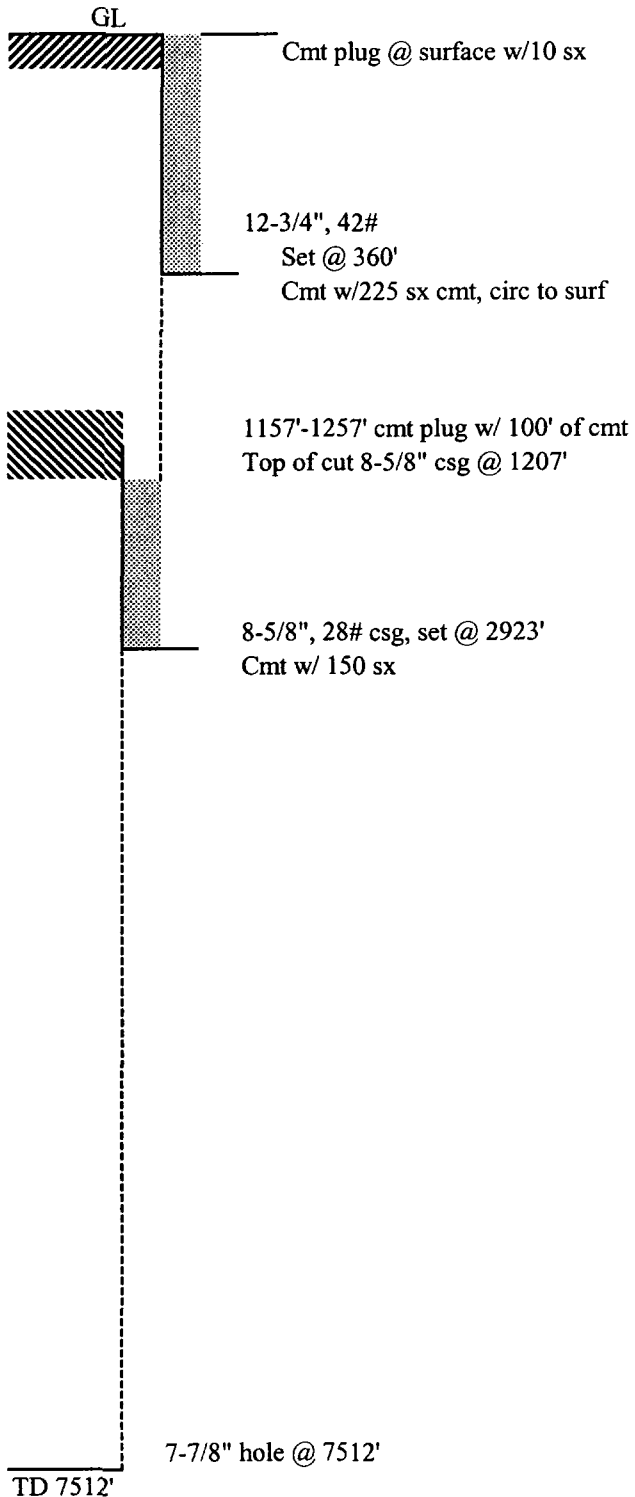
Well Name & No.: D. F. FERGASON #2 Operator: MARTINDALE CORP.
Location: UNIT G, SEC. 30, T-18-S, R-39-E
County: LEA State: NM API #: 30-025-07955
GR Elev: 3613' + KB of ft = 0 ft KB Elevation

**WELL HISTORY:**

Spud 5/18/1953
Rig Rlse. P&A'd well 6/22/74
Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

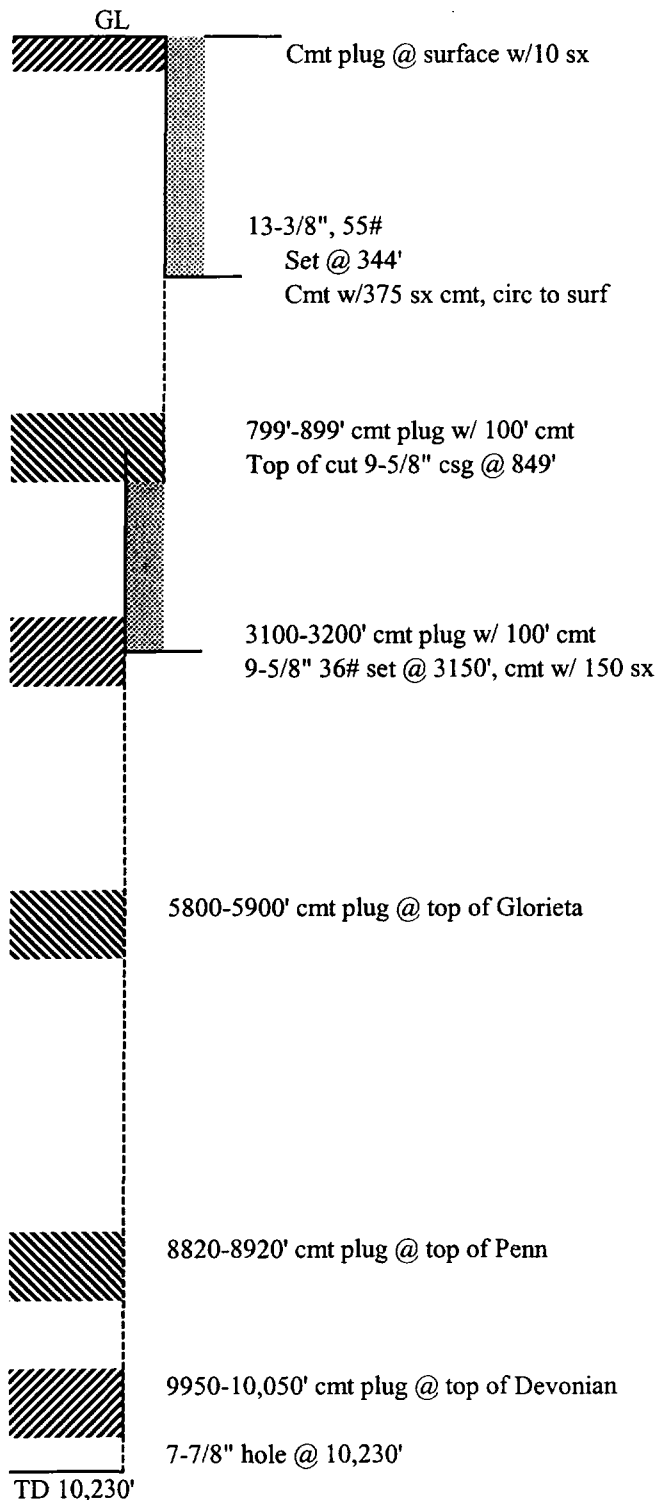
Well Name & No.: VIERSEN #1 Operator: HANSON OIL CORP.
Location: 1980' FNL & 1980 FEL, UNIT "J", SEC. 30, T-18-S, R-39-E
County: Lea State: NM API #: 30-025-23420
GR Elev: 3,606 + KB of ft = 3,606 ft KB Elevation

**WELL HISTORY:**

Spud 1/14/70
Rig Rlse. P&A'd well - 4/30/73
Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.: VIERSEN #1-X Operator: DONALD G. STEVENS
Location: 1955' FSL & 1930' FEL, UNIT "J", SEC. 30, T-18-S, R-39-E
County: Lea State: NM API #: 30-025-23420
GR Elev: 3,606 + KB of _____ ft = 3,606 ft KB Elevation

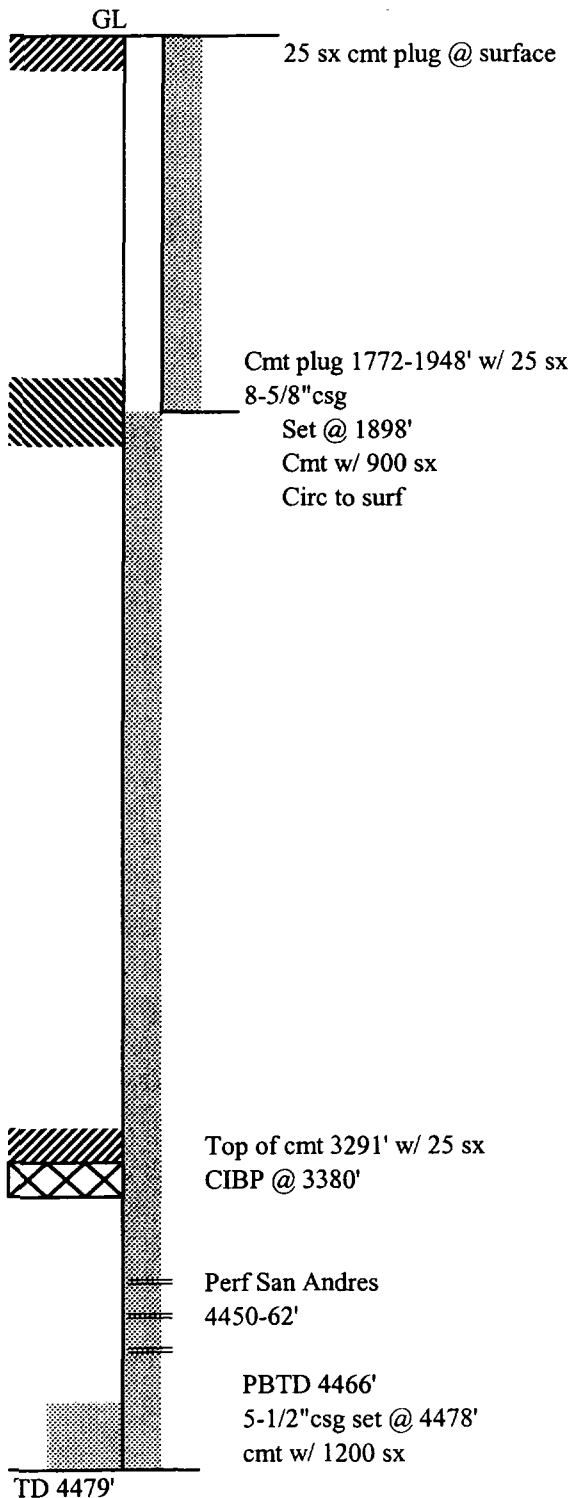
**WELL HISTORY:**

Spud 1/14/70
Rig Rlse. P&A'd well - 4/30/73

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.: SAMUEL E. CAIN #2 Operator: EXXON CORPORATION
Location: UNIT K, SEC. 30, T-18-S, R-39-E
County: LEA State: NM API #: 30-025-07951
GR Elev: 3616' + KB of ft = 0 ft KB Elevation

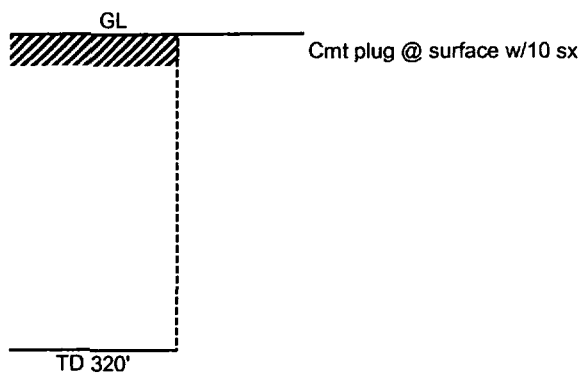
**WELL HISTORY:**

Spud 8/3/1953
Rig Rlse. P&A'd well 11/3/85

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.: CAIN #1 Operator: HANSON OIL COMPANY
Location: 990' FSL & 2310 FWL, UNIT "N", SEC. 30, T-18-S, R-39-E
County: Lea State: NM API #: 30-025-23421
GR Elev: 3,601 + KB of ft = 3,601 ft KB Elevation

**WELL HISTORY:**

Spud 1/15/70
Rig Rise. P&A'd well - 2/20/70

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.:

CHAPPARRAL #1

Operator: WESTERN RESERVES OIL COMPANY

Location:

2310' FWL & 660 FSL, UNIT "N", SEC. 30, T-18-S, R-39-E

County:

Lea

State:

NM

API #:

30-025-24966

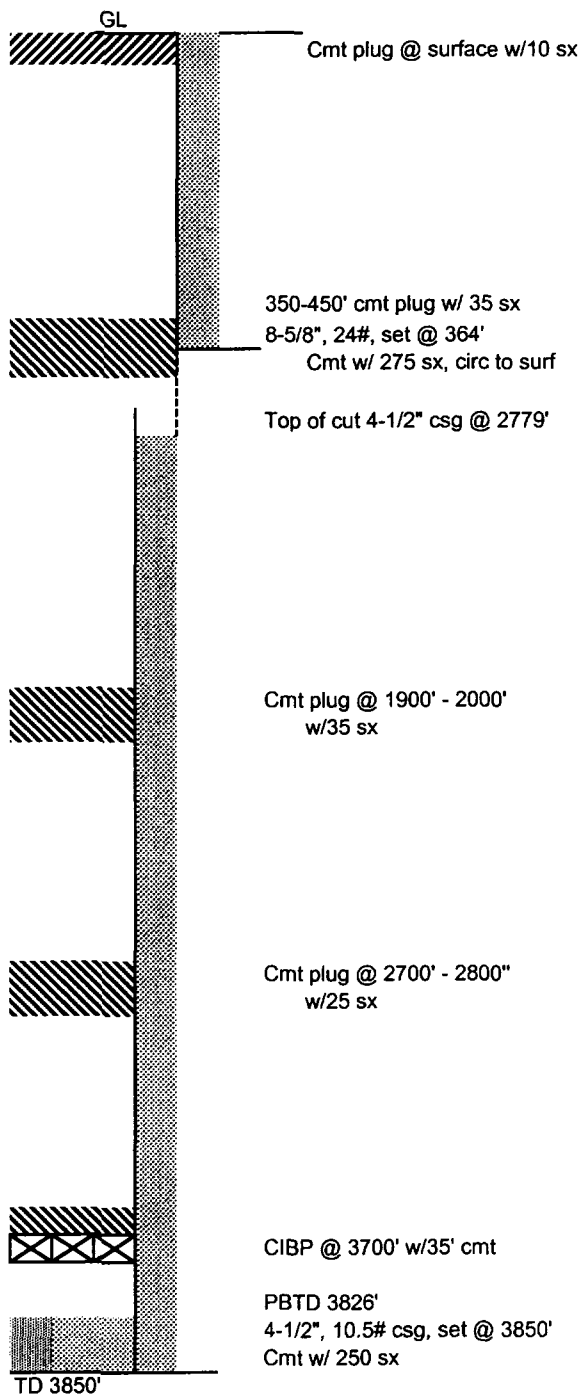
GR Elev:

3,610 + KB of

10

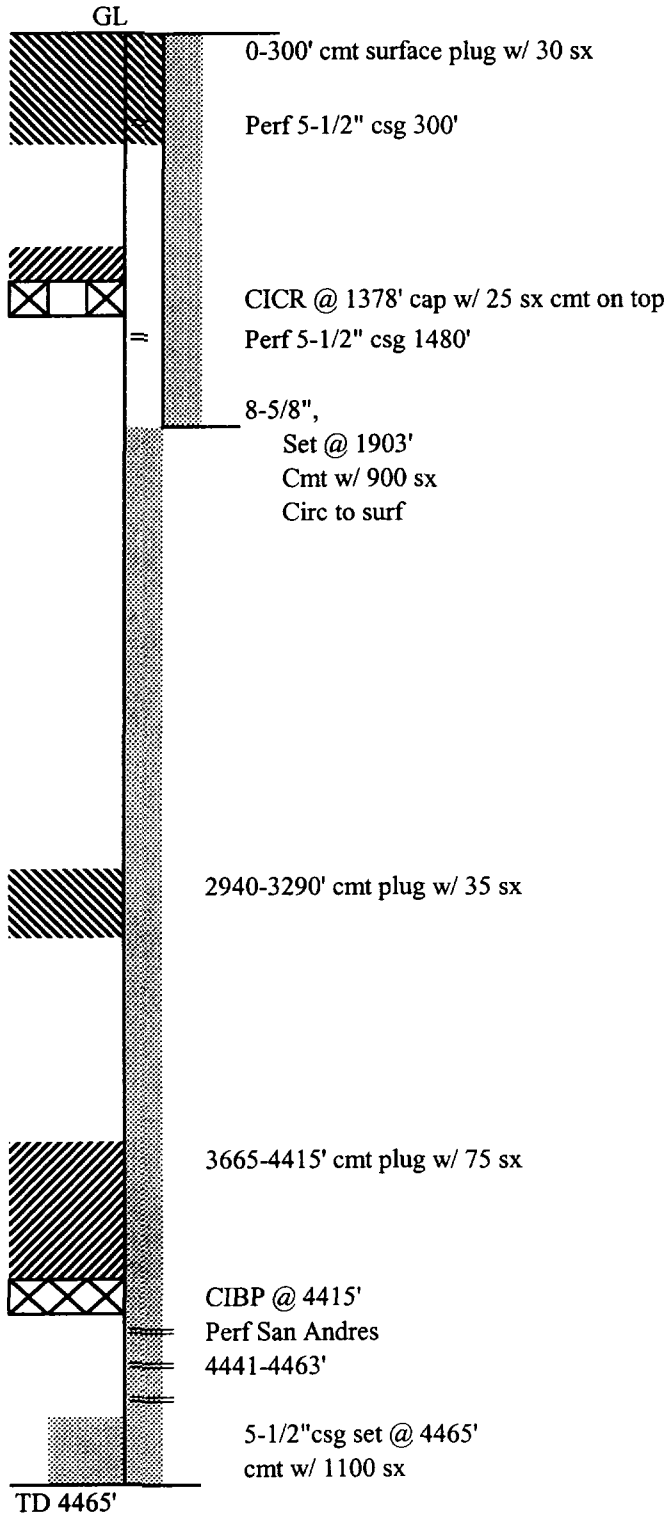
ft =

3,620 ft KB Elevation

**WELL HISTORY:**

Spud 2/6/75
Rig Rlse. P&A'd well - 3/1/75

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ ActualWell Name & No.: SAMUEL E. CAIN #3Operator: EXXON CORPORATIONLocation: UNIT N, SEC. 30, T-18-S, R-39-ECounty: LEA State: NM API #: 30-025-07952GR Elev: 3600' + KB of ft = 0 ft KB Elevation**WELL HISTORY:**

Spud 8/27/1953

Rig Rlse. P&A'd well 5/23/87

Plugging Information is from State Reports.

WELLBORE SCHEMATIC

☐ Proposed

☒ Actual

Well Name & No.:

VIERSEN #1

Operator: MORRIS R ANTWEIL

Location:

990' FSL & 330' FEL, UNIT "P", SEC. 30, T-18-S, R-39-E

County:

Lea

State:

NM

API #:

30-025-23420

GR Elev:

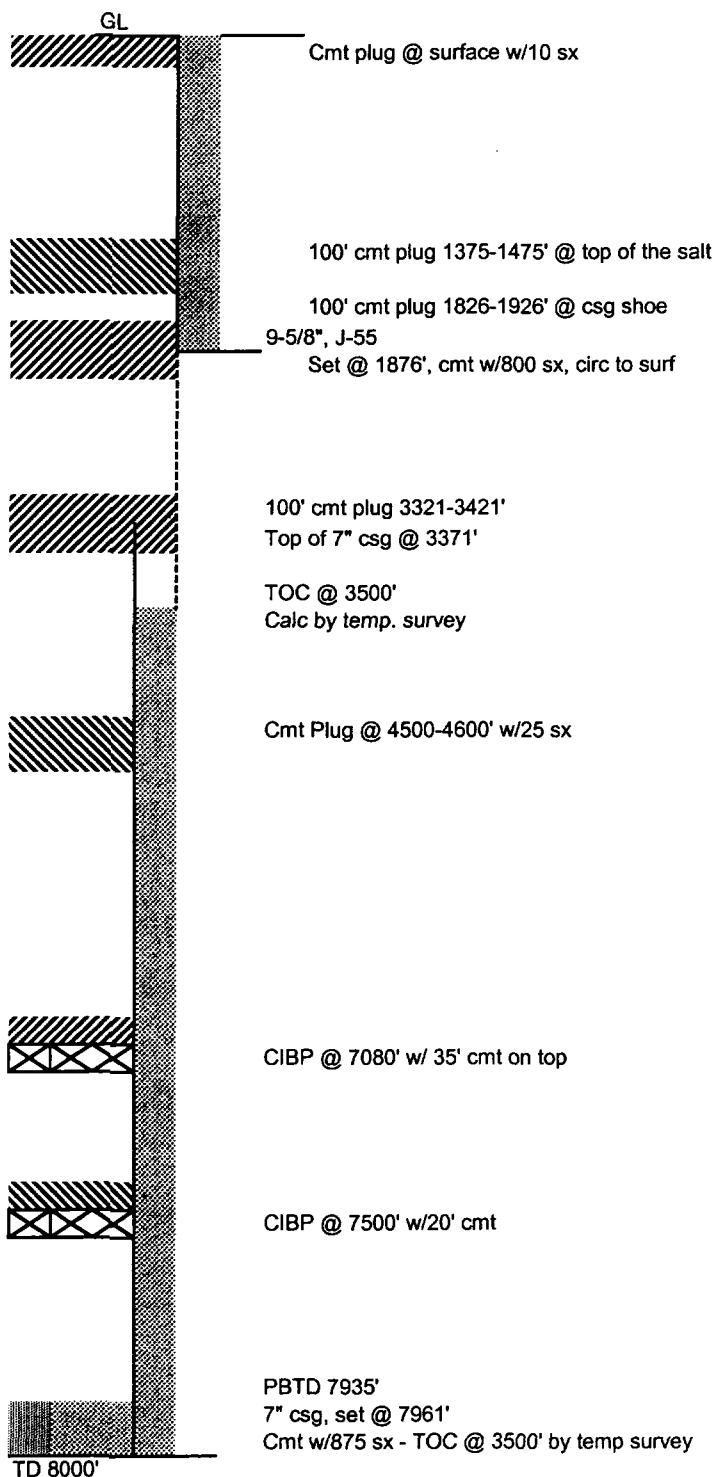
3,609

+ KB of

ft =

3,609

ft KB Elevation



WELL HISTORY:

Spud

12/10/84

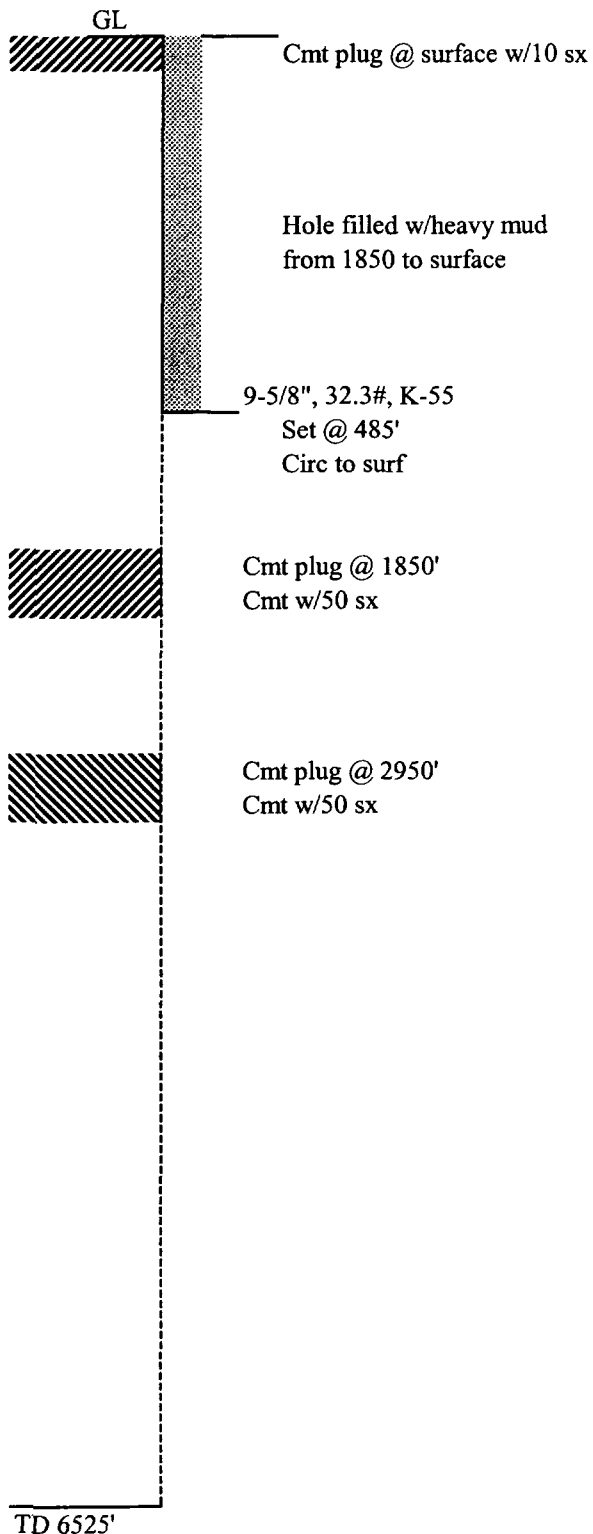
Rig Rlse.

P&A'd well - 6/28/1993

Plugging Information is from State Reports.

WELLBORE SCHEMATIC☐ Proposed☒ Actual

Well Name & No.: PEARL GOODE #1 Operator: STANOLIND OIL & GAS CO.
Location: 1980' FNL & 1980 FEL, SEC. 31, T-18-S, R-39-E
County: Lea State: NM API #: 30-025-07959
GR Elev: 3,602 + KB of _____ ft = 3,602 ft KB Elevation

**WELL HISTORY:**

Spud 1/3/52
Rig Rlse. P&A'd well - 4/7/1952
Plugging Information is from State Reports.

EnerQuest Resources, LLC
East Hobbs (San Andres) Field
Application for Authorization to Inject
NMOCD Form C-108

VII. Proposed Injection Operations

- | | | |
|----|--------------------------------|---|
| 1) | Injection Rate Per Well: | Average 500 BWPD
Maximum 750 BWPD |
| 2) | Injection System: | Closed |
| 3) | Injection Pressure (wellhead): | Average 600 psig
Maximum 890 psig
This is the standard 0.2 psig/ft of depth to
the uppermost perf. |
| 4) | Injection Fluid: | Water from the San Andres formation
within the proposed East Hobbs (San
Andres) Unit. Water analyses are attached
for 2 producing wells, CO Davis #2 and
Ralph Lowe State #2. |

VIII. Geologic Data

A. Injection Zone

- | | | |
|----|--------------|--|
| 1) | Name: | San Andres Formation |
| 2) | Description: | Injection will be into the San Andres formation within the field. The San Andres is a fine to coarsely crystalline dolostones, dolomitized grainstones, and dolomitic sandstones. The formation ranges in depth from 4440' to 4650'. The total net pay in the productive wells ranges from 119 to 164 feet. Average porosity is 16.2% and average permeability is 11.8 md. |

B. Fresh Water Sources

The State Engineer's Office reports fresh water production potential from the Ogallala formation. The bottom depth of ground water is reported to be 200 feet in Sect. 29, 95 feet in Sect. 30, 110 feet in Sec. 31, and 70 feet in Sect. 32 of T18S, R39E. There are 50 permitted water wells in the area of review and are listed on the attached table. There are no fresh water sources below the proposed injection interval.

EnerQuest Resources, LLC
East Hobbs (San Andres) Field
Application for Authorization to Inject
NMOCD Form C-108

IX. Proposed Stimulation Program

Phase I of the proposed waterflood comprises drilling and completing 4 new injection wells. The wells will be perforated in the San Andres and stimulated with a small acid job. The acid job will consist of about 3,000 gallons of 15% HCl acid with appropriate diversion to effectively stimulate all zones.

X. Logging and Test Data

The proposed injection wells have yet to be drilled. Once drilling is completed, any well logs or tests performed will be submitted to the NMOCD in a timely manner when they are obtained.

XI. Fresh Water Analysis

Attached are the fresh water analyses from two of the active water wells in the area. The well labeled P Goode was permitted for irrigation by Coyotye Farms (L04053) in Section 31. The well labeled CO Davis was permitted for domestic use by Lee Roberson (L11116) in Section 29.

XII. Disposal Well Statement

This section does not apply to this application since no disposal wells are being proposed.

XIII. Proof of Notice

A copy of this application has been furnished to all surface owners and leasehold operators within the area of review.

Unichem International

707 North Leech

P.O.Box 1499

Hobbs, New Mexico 88240

Company : HILLIN-SIMON

Date : 12-13-1988

Location: C. O. DAVIS #2 (on 12-06-1988)

	<u>Sample 1</u>
Specific Gravity:	1.013
Total Dissolved Solids:	17970
pH:	6.65
IONIC STRENGTH:	0.348

<u>CATIONS:</u>		<u>me/liter</u>	<u>mg/liter</u>
Calcium	(Ca ⁺²)	✓ 52.0	1040
Magnesium	(Mg ⁺²)	✓ 22.0	267
Sodium	(Na ⁺¹)	✓ 212	4870
Iron (total)	(Fe ⁺²)	✓ 3.69	103
Barium	(Ba ⁺²)	0.003	0.200

<u>ANIONS:</u>			
Bicarbonate	(HCO ₃ ⁻¹)	✓ 41.2	2510
Carbonate	(CO ₃ ⁻²)	✓ 0	0
Hydroxide	(OH ⁻¹)	✓ 0	0
Sulfate	(SO ₄ ⁻²)	✓ 47.4	2280
Chloride	(Cl ⁻¹)	✓ 197	7000

SCALING INDEX (positive value indicates scale)

<u>Temperature</u>		<u>Calcium</u>	<u>Calcium</u>
86°F	30°C	<u>Carbonate</u>	<u>Sulfate</u>
		0.68	-4.6

Unichem International

707 North Leech

P.O.Box 1499

Hobbs, New Mexico 88240

Company : HILLIN-SIMON

Date : 12-13-1988

Location: RALPH LOWE #2 (on 12-06-1988)

Specific Gravity:

Total Dissolved Solids:

pH:

IONIC STRENGTH:

Sample 1

1.013

17814

7.28

0.337

CATIONS:

		<u>me/liter</u>	<u>mg/liter</u>
Calcium	(Ca ⁺²)	✓ 36.0	720
Magnesium	(Mg ⁺²)	✓ 22.0	267
Sodium	(Na ⁺¹)	✓ 230	5290
Iron (total)	(Fe ⁺²)	0.315	8.80
Barium	(Ba ⁺²)	0.003	0.200

ANIONS:

Bicarbonate	(HCO ₃ ⁻¹)	✓ 33.4	2040
Carbonate	(CO ₃ ⁻²)	0	0
Hydroxide	(OH ⁻¹)	0	0
Sulfate	(SO ₄ ⁻²)	✓ 37.5	1800
Chloride	(Cl ⁻¹)	✓ 217	7700

SCALING INDEX (positive value indicates scale)

Temperature
86°F 30°C

<u>Calcium</u>	<u>Calcium</u>
<u>Carbonate</u>	<u>Sulfate</u>
1.1	-17

WATER WELL DATA REPORT AS OF FEBRUARY 12, 2002

	Use	Owner	Well Number	Twp	Rng	Sec	Qtr	Qtr	Qtr	Qtr	Start Date	Finish Date	Depth (ft.)	
													Well	Water
1	DOM	MARTIN HUGHES	L 04096 APPRO EXP	18S	39E	29	NE						120	65
2	DOM	WILLIAM TUCKER	L 04771 APPRO	18S	39E	29	NW	NE	NW		12/15/1961	12/16/1961	240	200
3	DOM	LEE ROBERSON	L 11116	18S	39E	29	NW	NE	NW		8/21/2000	8/21/2000	150	84
4	PRO	ANADARKO PROD CO.	L 08365	18S	39E	29	NW	SE			3/11/1981	3/12/1981		
5	IRR	LEE ROBERSON	L 03430 S	18S	39E	29	NW	SW	NE					
6	PRO	KEATING DRILLING CO.	L 01217 APPRO	18S	39E	29	SE	SE	NE		9/9/1951	9/11/1951	120	
7	DOM	D. D. JONES	L 06512	18S	39E	30	NE	NE			9/12/1969	9/14/1969	170	70
8	DOM	TERRY CAWLEY	L 09289	18S	39E	30	NE	NE	NW		8/5/1983	8/5/1983	150	60
9	DOM	LEROY N. BOX	L 09912	18S	39E	30	NE	NE			4/27/1987	4/27/1987	155	95
10	DOM	ADAN RODRIQUEZ	L 09948	18S	39E	30	NE	NE			9/3/1987	9/3/1987	150	88
11	DOM	TURNER J C JR	L 10389	18S	39E	30	NE	NE	NW		5/13/1994	5/14/1994	180	87
12	DOM	ROB L. HOLDRIDGE	L 05183 EXP	18S	39E	30	NE	NW	NE					
13	DOM	CARLTON C. WADE	L 05187 EXP	18S	39E	30	NE	NW						
14	DOM	CARLTON C. MR. WADE	L 05448 EXP	18S	39E	30	NE	NW						
15	DOM	ROB L. HOLDRIDGE	L 10538	18S	39E	30	NE	NW	NW		2/5/1996	2/16/1996	200	
16	PRO	THE TEXAS COMPANY	L 02173 APPRO	18S	39E	30	NE	SE						
17	DOM	JIMMY D. ROBERTS	L 08039	18S	39E	30	NE	SE			3/21/1979	3/28/1979	150	50
18	DOM	JERRY D. SMITH	L 08040	18S	39E	30	NE	SE			5/14/1979	5/18/1979	150	85
19	DOM	ROB L. HOLDRIDGE	L 07231 CLW	18S	39E	30	NE	SW	NE		8/25/2001	8/25/2001	195	
20	DOM	THOMAS G. PIERCE	L 08294	18S	39E	30	NE	SW	NE		7/1/1980	7/3/1980	150	90
21	DOM	MICHAEL W. HOLDRIDGE	L 08550	18S	39E	30	NE	SW			10/29/1981	10/31/1981	150	82
22	DOM	GARNICE LAND	L 05197	18S	39E	30	NE				8/26/1963	8/28/1963	100	70
23	DOM	JACK ROBERTS	L 05924	18S	39E	30	NE				11/26/1989	11/26/1989	150	85
24	DOM	ADAN B. RODRIQUEZ	L 07492	18S	39E	30	NE				1/23/1980	1/24/1980	150	82
25	PRO	HUMBLE OIL & REFINING CO.	L 02204 APPRO	18S	39E	30	NW	SE	NW		5/3/1953	5/4/1953	123	65
26	EXP	RICE ENGINEERING COMPANY	L 07671 EXPL 1 & 2	18S	39E	30	NW	SE	NE		3/30/1977	3/31/1977	150	
27	PRO	CACTUS DRILLING COMPANY	L 06633 (E)	18S	39E	30	SE	NW	SW					
28	DOM	DARRELL G. BINGHAM	L 04054 REPAR	18S	39E	31	NE	NW	NW		9/9/1980	9/12/1980	148	105
29	PRO	DAVIDSON DRILLING CO.	L 01333	18S	39E	31	NE	SW			1/1/1952	1/2/1952	123	55
30	DOM	OLLIE T. FORE	L 02439 APPRO	18S	39E	31	NW	NE	SW		1/1/1953	1/3/1953	135	60
31	DOM	L. W. GASSAWAY	L 06605 EXP	18S	39E	31	NW	NW	NW					
32	DOM	TERRY L. OWEN	L 10006	18S	39E	31	NW				7/6/1988	7/18/1988	120	79
33	IRR	COYOTYE FARMS, LLC	L 04053	18S	39E	31	SE	SW	NE				160	
34	DOM	JOHN KING	L 08982	18S	39E	31	SW	NE	SE					
35	DOM	GUILLERMO VILLALOBOS	L 09160	18S	39E	31	SW	NE	NE		4/17/1983	4/18/1983	151	73
36	DOM	ROBERT CUNNINGHAM	L 08698	18S	39E	31	SW	SE			3/12/1982	3/18/1982	150	100
37	PRO	INC. PRIMARY FUELS	L 09999	18S	39E	31	SW	SE			5/6/1988	5/10/1988	164	110
38	DOM	GEORGE A. MANN	L 06891 EXP	18S	39E	31	SW	SW	SE					
39	DOM	RAUL C. GONZALEZ	L 08565	18S	39E	31	SW	SW	NE		10/27/1981	10/30/1981	140	95
40	DOM	MARGARITA ROBLES	L 10973	18S	39E	31	SW	SW	NW		8/13/1999	8/13/1999	158	103
41	DOM	EARL MANNING	L 06713 EXP	18S	39E	31	SW							
42	DOM	BETTY FOLLIS	L 06714 EXP	18S	39E	31	SW							
43	DOM	JACK SICKLER	L 08862 EXP 1 & 2	18S	39E	31	SW							
44	DOM	PAULINO G. QUIROZ	L 09453 EXP	18S	39E	31	SW							
45	DOM	RAMIREZ ARTURO	L 10331	18S	39E	31	SW							
46	DOM	PAULINO G. QUIROZ	L 10692	18S	39E	31	SW							
47	PRO	SHARPE DRILLING CO.	L 01325 APPRO	18S	39E	32	NE	NE	NE		12/18/1952	12/19/1952	115	40
48	PRO	STONE DRILLING CO.	L 02302 APPRO	18S	39E	32	NW	NW	NE				86	30
49	STK	GARY M. SCHUBERT	L 10144	18S	39E	32	SW	NE			9/5/1990	9/5/1990	150	70
50	DOM	SCHUBERT GARY	L 10298	18S	39E	32	SW	SW	SW		11/20/1992	11/20/1992	180	68

Above Information Obtained from: NM State Engineer's Office - Water Administration Technical Engineering Resource System



PHONE (915) 673-7001 • 2111 BEECHWOOD • ABILENE, TX 79603

PHONE (505) 393-2326 • 101 E. MARLAND • HOBBS, NM 88240

ANALYTICAL RESULTS FOR
ENERQUEST RESOURCES L.L.C.
ATTN: CHRIS RENAUD
P.O. BOX 11150
MIDLAND, TX 79702
FAX TO: (915) 687-4804

Receiving Date: 02/21/02
Reporting Date: 02/22/02
Project Number: NOT GIVEN
Project Name: FRESH WATER SAMPLES
Project Location: PEARL GOODE & C.O. DAVIS

Sampling Date: 02/21/02
Sample Type: GROUNDWATER
Sample Condition: COOL & INTACT
Sample Received By: BC
Analyzed By: AH

LAB NUMBER	SAMPLE ID	Na (mg/L)	Ca (mg/L)	Mg (mg/L)	K (mg/L)	Conductivity (mS/cm)	T-Alkalinity (mgCaCO ₃ /L)
------------	-----------	--------------	--------------	--------------	-------------	-------------------------	--

ANALYSIS DATE:	02/22/02	02/21/02	02/21/02	02/21/02	02/21/02	02/21/02	02/21/02
H6533-1 P. GOODE	50	83	22	2.82	1022	155	
H6533-2 C.O. DAVIS	111	194	62	6.29	2395	200	
Quality Control	NR	55	49	5.27	1489	NR	
True Value QC	NR	50	50	5.00	1413	NR	
% Accuracy	NR	110	97.2	105	105	NR	
Relative Percent Difference	NR	0	6.0	0	0.3	NR	

METHODS:	SM3500-Ca-D	3500-Mg E	8049	120.1	310.1	
----------	-------------	-----------	------	-------	-------	--

Cl ⁻ (mg/L)	SO ₄ (mg/L)	CO ₃ (mg/L)	HCO ₃ (mg/L)	pH (s.u.)	TDS (mg/L)
---------------------------	---------------------------	---------------------------	----------------------------	--------------	---------------

ANALYSIS DATE:	02/21/02	02/21/02	02/21/02	02/21/02	02/21/02	02/22/02
H6533-1 P. GOODE	124	77	0	190	7.24	465
H6533-2 C.O. DAVIS	384	239	0	244	7.35	1472
Quality Control	1020	52.66	NR	948	7.11	NR
True Value QC	1000	50.00	NR	1000	7.00	NR
% Accuracy	102	105	NR	94.8	102	NR
Relative Percent Difference	5.0	0.6	NR	0.4	1.6	5.1

METHODS:	SM4500-Cl-B	375.4	310.1	310.1	150.1	160.1
----------	-------------	-------	-------	-------	-------	-------

Amy Hill
Chemist

2-22-02
Date

PLEASE NOTE: Liability and Damages. Cardinal's liability and client's exclusive remedy for any claim arising, whether based in contract or tort, shall be limited to the amount paid by client for analyses. All claims, including those for negligence and any other cause whatsoever shall be deemed waived unless made in writing and received by Cardinal within thirty (30) days after completion of the applicable service. In no event shall Cardinal be liable for incidental or consequential damages, including, without limitation, business interruptions, loss of use, or loss of profits incurred by client, its subsidiaries, affiliates or successors arising out of or related to the performance of services hereunder by Cardinal, regardless of whether such claim is based upon any of the above-stated reasons or otherwise.

H6533

**STATE/FEE
WATERFLOOD UNIT**

**UNIT AGREEMENT
FOR THE DEVELOPMENT AND
OPERATION
OF THE**

**EAST HOBBS (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO
NO. _____**

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST HOBBS (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
EAST HOBBS (SAN ANDRES) UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of January, 2002, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

W I T N E S S E T H T H A T:

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

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

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

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chap. 72, Laws 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the East Hobbs (San Andres) Unit, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil and gas recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the Unitized Formation underlying the Unit Area, and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations not inconsistent with the terms hereof or the laws of the State of New Mexico are hereby accepted and made a part of this agreement.

SECTION 2. DEFINITIONS: For the purpose of this agreement, the following terms and expressions are used herein shall mean:

- (a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.

- (b) "Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.
- (c) "Division" is defined as the Oil Conservation Division of the State of New Mexico.
- (d) "Unitized Formation" is defined as that stratigraphic interval occurring between a point of 50 feet above the top of the San Andres formation and 50 feet below the base of the P-5 marker in the San Andres formation, said San Andres interval occurring between 4451 feet and 4637 feet in the EnerQuest Resources, LLC, Carrie O. Davis Well No. 5 located 330 feet from the west line and 1310 feet from the south line of Section 29, Township 18 South, Range 39 East, N.M.P.M., Lea County, New Mexico as recorded on the density-neutron log of said well dated June 26, 1997.
- (e) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.
- (f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.
- (g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized substances or proceed thereof other than a Working Interest.
- (h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.
- (i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.
- (j) "Tract" is defined as each parcel of land described as such and given a Tract number in Exhibit "B".
- (k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.
- (l) "Unit Participation" is defined as the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract having Tract Participation by the Tract Participation of such Tract.
- (m) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, East Hobbs (San Andres) Unit, Lea County, New Mexico".
- (n) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8, Successor Unit Operator, hereof.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 920.00 acres, more or less.

Exhibit "A" to the extent known to Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this agreement as of the effective date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner.

- (a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into the Unit Area shall file an application therefore with Unit Operator requesting such admission.
- (b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the tract or tracts proposed to be included in the Unit and/or affected by the proposed expansion setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having a combined Unit Participation of ninety percent (90%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Commission:
 - (1) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefore, the basis for admission of the additional Tract or Tracts, the Tract Participation to be allocated thereto, and the proposed effective date thereof; and
 - (2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
 - (3) File, upon the expiration of said thirty-day period as set out in Subsection (2) immediately above, with the Commissioner and Division the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, *infra*; and (d) Copies of any objections received.

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

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this agreement and herein are called "Unitized Substances".

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

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

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal only by unanimous vote of all Working Interest Owners other than Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

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

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books and records, materials, appurtenances and other assets used in conducting the Unit operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area) to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners, voting in the manner provided in the Unit Operating Agreement, shall select a successor Unit Operator; provided, however, that the voting interest of the outgoing Unit Operator shall not be considered for any purpose if such outgoing Unit Operator fails to vote or votes only to succeed itself. Such selection of a successor Unit Operator shall

not become effective until: (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING

AGREEMENT: Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereunder in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this agreement, and in case of any inconsistency or conflict between this agreement and the Unit Operating Agreement, this agreement shall prevail. One true copy of any Unit Operating Agreement executed Pursuant to this Section shall be filed with the Commissioner.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request therefore, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this agreement shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS: It is recognized and agreed by the parties hereto that all of the land subject to this agreement has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect a greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not. The location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial plan of operation shall be filed with the Division and the Commissioner concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the effective date of this Agreement, or any extension thereof approved by the Commissioner and Division or this Agreement, shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined in accordance with the following formulas:

Acreage (20%) + Useable Wellbore (20%) + Last 12 month production (30%) +
Estimated Ultimate Recovery (30%)

Such percentages of Tract Participation have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this agreement as of the effective date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the effective date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the effective date hereof Unit Operator shall promptly file with the Commissioner and Division at least two copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the effective date of this agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within 30 days after filing.

If, subsequent to the effective date of this agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 28, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 27, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C" the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the effective date hereof, the Tracts within the Unit Area that shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the working Interest therein have become parties hereto and as to which royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all tracts qualifying under Section 13 (a) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of working interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purpose of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and 13 (b) as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among or accounted for to the parties hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this

agreement not been entered into, and with the same legal force and effect. No Tract committed to this Agreement and qualified for participation as heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the effective date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; provided that, all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract or receiving the proceeds therefrom shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date, hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interests not taken in kind shall be made by Working Interest Owners responsible therefore under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If gas obtained from lands not subject to this Agreement is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production, or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division a like amount of gas, less appropriate deductions for loss from any cause may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not to the products extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division; provided further, that such right of withdrawal shall terminate on the termination of this agreement. If liquefied petroleum gases obtained from lands or formations not subject to this agreement be injected into the Unitized Formation for the purpose of increasing ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gases may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

Royalty due on account of State lands shall be computed and paid on the basis of all Unitized Substances allocated to such lands.

SECTION 17. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefore under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for payment of any rental or minimum royalty in lieu thereof due under their leases. Rental for lands of the State of New Mexico subject to this agreement shall be paid at the rate specified in the respective leases from the State of New Mexico, or may be paid at the rate specified in the respective leases from the State of New Mexico, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. CONSERVATION: Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by State laws and regulations. The use of fresh water in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized lands by wells on land not subject to this agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provision of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Commissioner, as to State leases, shall by his approval hereof or by the approval hereof by his duly authorized representative, does hereby establish,

alter, change or revoke the drilling, producing, rental minimum royalty and royalty requirements of State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement. Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

- (a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned Tract subject to this agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.
- (b) Drilling, producing secondary recovery or enhanced oil operations performed hereunder upon any Tract of unitized lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.
- (c) Suspension of drilling or producing operations on all unitized land pursuant to direction or consent of the Division and Commissioner or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of unitized lands.
- (d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the terms of this agreement.
- (e) Termination of this agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws shall continue in force and effect thereafter.
- (f) Any lease which is made subject to this agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.
- (g) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto, shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however that notwithstanding any of the provisions of this agreement to the contrary, such lease shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease if oil or gas is, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this agreement, allocated to the portion of the lands covered by such lease committed to this agreement, or at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bonafide drilling, reworking, or secondary recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned

upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the record instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefore until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 22. EFFECTIVE DATE AND TERM: This agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 A.M. of the first day of the month next following:

- (a) The execution or ratification of this agreement and the Unit Operating Agreement by Working Interest Owners having a combined Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Royalty Interest in said Unit Area; and
- (b) The approval of this agreement by the Commissioner and the Commission; and
- (c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and
- (d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the effective date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before December 31, 2002, this agreement shall terminate ipso facto on said date (hereinafter called "termination date") and thereafter be of no further force or effect, unless prior thereto this agreement has been executed or ratified by Working Interest Owners having a combined Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Unit Participation of at least eighty percent (80%) committed to this agreement have decided to extend said termination date for a period not to exceed one (1) year (hereinafter called "extended termination date"). If said termination date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said extended termination date this agreement shall terminate ipso facto on said extended termination date and thereafter be of no further force or effect.

The term of this agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least ninety percent (90%) Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the termination date of this agreement, file for record in the office where a counterpart of this agreement is recorded, a certificate to the effect that this agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this

agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Commission and to appeal from any order issued under the rules and regulations of the Commissioner or the Commission or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceedings.

SECTION 24. NOTICES: All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or rules or regulations issued there under in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive; provided, however, that each party hereto covenants that during the existence of this agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this agreement effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 27. NONJOINDER AND SUBSEQUENT JOINDER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time must be accompanied by appropriate joinder by the owner of the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within the Unit Area not committed hereto prior to final approval of this agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing or consenting in writing to this agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after two (2) months from the effective date hereof, the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of not less than ninety percent (90%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner, of duly executed documents necessary to establish effective commitment unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. TAXES: Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefore by the parties hereto, including Royalty Owners, who may be responsible for taxes on their respective allocated share of said

Unitized Substances. No such taxes shall be charged to the State of New Mexico, or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter place by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners are covered by the Unit Operating Agreement.

SECTION 32. NO PARTNERSHIP: The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Unit Participation of fifty percent (50%) or more and the Commissioner.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the first above written and have set opposite their respective names the date of execution.

ATTEST:

OPERATOR: ENERQUEST RESOURCES, LLC

By: _____

Address: _____

Date: _____

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

By: _____

Address: _____

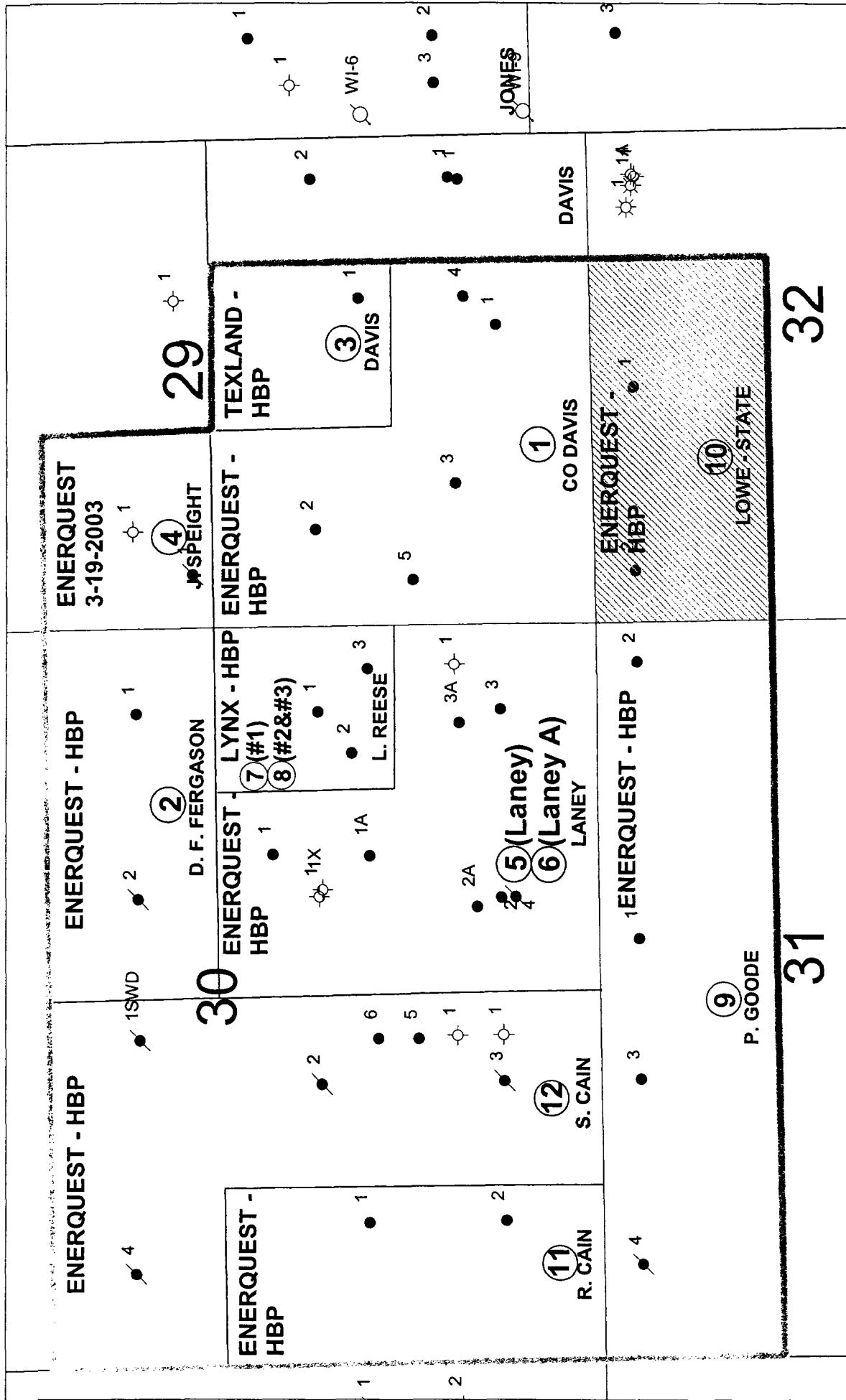
Date: _____

ATTEST:

By: _____

Address: _____

Date: _____



ENERQUEST RESOURCES, LLC	
EAST HOBBS (SAN ANDRES) UNIT	
920 ACRES	
Lea County, New Mexico	
T18S - R39E	
Project:	Date: 1 Jan, 2002
Area:	Scale: 1"=1000'
Prospect:	C.I.:
	Geologist:
	Geophysicist:
	Engineer:

State Lands 80 acres (8.7%)

Patented Lands 840 acres (91.3%)

3 Tract Number

Unit Outline

1000 2000 3000 ft

EXHIBIT A

note 3, 7, 8

Exhibit "B"

Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
1	Sec. 29: S/2 SW/4, NW/4 SW/4	120	HBP	Eram Ali	0.00010821	Eram Ali	0.00987500	Charter Royalty 94-1 Acq Fund	0.05250000
				Douglas H. Christensen	0.00005411	Douglas H. Christensen	0.00493750	James R. Small	0.02250000
				Crump Family Partnership Ltd.	0.00114705	Crump Family Partnership Ltd.	0.10467500	Marshall R. Young Oil Company	0.01000000
				Carleton Davis	0.00208400	Dingus Investments, Inc.	0.07241669		
				Dingus Investments, Inc.	0.00079298	EnerQuest Oil & Gas, Ltd.	0.42509406		
				Donna E. Dyer	0.00312500	David A. Godsey	0.03150125		
				Sandra J. Eaton	0.00295150	Lone Star Oil & Gas	0.00493750		
				EnerQuest Oil & Gas, Ltd.	0.00307324	Parsley Resources, Inc.	0.05069162		
				Gods House of Prayer	0.05833400	Christopher P. Renaud	0.03517969		
				Virginia Ann Jackson	0.00196800	Armand Smith, Jr.	0.05069169		
				Theodore Johnson Estate	0.00625000				
				Judson Properties, Ltd.	0.00065567				
				LAJ Corporation	0.00065567				
				Dorothy Locastro	0.00062500				
				Lone Star Oil & Gas	0.00005411				
				Elizabeth Love	0.00680500				
				The Martin Living Trust	0.00065566				
				New Mexico Boys and Girls Ranch	0.00208300				
				Mary J. Parker	0.00393400				
				Matthew J. Parsley	0.00068563				
				Sal Ribera	0.01180600				
				Rowley Bros	0.00833400				
				Armand Smith, Jr.	0.00068563				
				Sugarberry Land Company	0.00205604				
				David Williams	0.00312500				
				Virginia M. Wingard	0.00295150				
2	Sec. 30: S/2 NE/4	80	HBP	Eram Ali	0.00014485	Eram Ali	0.00973947	Charter Royalty 94-1 Acq Fund	0.04790625
				Eram Ali	0.00002929	FAO Florence Branaman	0.00625000	James R. Small	0.02053125
				BKKA	0.01171880	Douglas H. Christensen	0.00486974	Marshall R. Young Oil Company	0.00265625
				Roy G. Barton, Jr.	0.01171880	Crump Family Partnership Ltd.	0.10323821		
				Roy G. Barton, Sr & Opal Barton	0.00468750	Dingus Investments, Inc.	0.07142266		
				Clare C. Beall	0.00156250	EnerQuest Oil & Gas, Ltd.	0.41925985		

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Number</u>	<u>Serial #, Lease</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
		Mildred M. Day Bernard	0.00234370	David A. Godsey			0.03106838
		Mary P. Brisbane	0.00911460	Lone Star Oil & Gas			0.00486974
		Douglas H. Christensen	0.00007243	Parsley Resources, Inc.			0.04999571
		Dr. Ben M. Colletti	0.00468750	Christopher P. Renaud			0.03469679
		Genevieve Ferguson Colletti	0.01388890	Armand Smith, Jr.			0.04999570
		Crump Family Partnership Ltd.	0.00153549	FAO Andrew A. Stoudt			0.00625000
		Helen A. Dean	0.00152990	FAO Mary E. Wynn			0.00625000
		Ivan C. Dean	0.00611980				
		Dingus Investments, Inc.	0.00106152				
		Dingus Investments, Inc.	0.00009278				
		Kenneth L. & Jane E. Edwards	0.00260420				
		Ervin Elsea	0.00130200				
		EnerQuest Oil & Gas, Ltd.	0.00469989				
		D.F. Ferguson Suspense	0.00912507				
		Nellie L. Fleming	0.00026041				
		Headington Oil Company, LP	0.00390620				
		Charles Fred Jennings	0.00009766				
		Fred C. Jennings	0.00026041				
		James Roger Jennings	0.00009766				
		Jo Johnson	0.00390630				
		M.H. Lang	0.00039060				
		Eva Mae Lewis	0.00234370				
		Lone Star Oil & Gas	0.00007243				
		Michelle Martinez	0.00130210				
		Virginia H. Jennings Matthews	0.00006510				
		Margaret Ferguson Mauk	0.00694440				
		Elizabeth Jennings McCormick	0.00026041				
		Margaret Peabody Newkom	0.00065105				
		Kendall B. Niceley	0.00078130				
		Matthew J. Parsley	0.00091782				
		Matthew J. Parsley	0.00009278				
		Alfreda B. Peabody	0.00065104				
		Pecos Bend Royalties, Inc.	0.00039060				
		Christine Riley	0.00130210				

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
3 Sec.29:NW/4 SW/4		40 HBP		Russell T. Rudy	0.00781250				
				Armand Smith, Jr.	0.00091782				
				Armand Smith, Jr.	0.00009278				
				Sugarberry Land Company	0.00275228				
				Sugarberry Land Company	0.00027832				
				Mrs. Harry Titzkowski	0.00156250				
				Wanda K. Van Den Berg	0.00026041				
				Carolyn Wardwell	0.00458980				
				Eram Ali	0.00024590	Eram Ali	0.00621448	Peggy Pratt Chartier Estate	0.05468750
				EnerQuest Oil & Gas, Ltd.	0.00491890	David H. Arrington	0.28586666		
				Carleton Davis	0.00208330	Bruce D. Brockman	0.00142933		
				Dingus Investments, Inc.	0.00077880	Michael E. Chapman	0.00142933		
				Donna E. Dyer	0.00312500	Keith W. Davis	0.00571733		
				Sandra J. Eaton	0.00295150	Dingus Investments, Inc.	0.03937497		
				Gods House of Prayer	0.05833330	EnerQuest Oil & Gas, Ltd.	0.13886883		
				Virginia Ann Jackson	0.00196760	David A. Godsey	0.02479579		
				Theodore R. Johnson Estate	0.00625000	KJMA Oil Properties, Ltd.	0.01429333		
				Judson Properties, Ltd.	0.00065580	Sydney E. Niblo	0.00571733		
				LAJ Corporation	0.00065580	Parsley Resources, Inc.	0.01966262		
				Dorothy L. Locastro	0.00062500	W.F. Pendleton	0.00571733		
				Elizabeth N. Love	0.00562500	Gary Phillips	0.00142933		
				The Martin Living Trust	0.00065590	Armand Smith, Jr.	0.01966262		
				New Mexico Boys and Girls Ranch	0.00208340	Gordon E. Sommers	0.00571733		
				Mary Parker	0.00393520	Texland Limited Partnership, I	0.24155722		
				Matthew J. Parsley	0.00077890	H.C. Zachry	0.00285867		
				Salvatore Ribera	0.01180560				
				Rowley Bros.	0.00833340				
				Armand Smith, Jr.	0.00077890				
				Sugarberry Land Company	0.00233650				
				David A. Williams	0.00312500				
				Virginia M. Wingard	0.00295130				

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
4	Sec.29:SW/4 NW/4	40	Expires 3/19/03	June D. Speight Ellis Carl Browning & Evelyn Browning	0.10156250	Eram Ali	0.00996094		0.00996094
				Vera Browning Stephens Nelda Charlene Browning Nancy L. Willman, Trustee Grady Hicks Deborah A. Smith Linda Browning Kinman Rex Taylor Browning William John Nolan Jane Harris	0.00954861 0.00954861 0.00954861 0.00954861 0.00318287 0.00318287 0.00318287 0.02343750 0.02083334	Crump Family Partnership Ltd. Dingus Investments, Inc. EnerQuest Oil & Gas, Ltd. David A. Godsey Lone Star Oil & Gas Parsley Resources, Inc. Christopher P. Renaud Armand Smith, Jr.	0.10558594 0.07304690 0.42879345 0.03177539 0.00498047 0.05113280 0.03548584 0.05113280		
5	Sec. 30: NW/4 SE/4, S/2 SE/4	60	HBP	Crump Family Partnership Ltd. Jana Sue Barry, ssp Ro Jean Booth Claudine Bradley, ssp Ruth Fosberg, ssp Mary Virginia Gibbs Velma E. Gilmer Trust Julie Ann Hopkins Trust Mark Collier Hopkins Trust Hugh B. Key, II, ssp Duane Laney, ssp Vera N. Laney, ssp A. Jeanette Laney Trust Anna Lois Lynch Revocable Trust Loyce M. Matthews Trust P. T. Matthews Trust Rev. Ray D. Pinson Reta Joyce Stone Anne Key Davis Dingus Investments, Inc.	0.00196761 0.00023872 0.00525174 0.00023872 0.00095486 0.00477431 0.02005208 0.00055416 0.00055416 0.00110832 0.00023872 0.02864583 0.00572917 0.00477431 0.00477430 0.00477430 0.00525174 0.00023872 0.00110832 0.00136124	Crump Family Partnership Ltd. Lois Sherrerd Clements Trust Nancy Hershberger Julie Ann Hopkins Trust Mark Collier Hopkins Trust Hugh B. Key, II, ssp Carolyn V. Larson Virginia G. Olincy Oil Trust Marie Urfer Stinnett Anne Key Davis James F. Urfer Robert Gordon Van Vranken, Jr. James F. Van Vranken Dingus Investments, Inc. Douglas H. Christensen Eram Ali Armand Smith, Jr. Christopher P. Renaud David A. Godsey Kite Royalty Co., LLC	0.07842910 0.00607639 0.00151910 0.02221680 0.02221680 0.04443360 0.00151910 0.01822917 0.00303820 0.04443360 0.00303820 0.00151910 0.00151910 0.05570290 0.00375645 0.00751289 0.03853191 0.02756735 0.02439799 0.04443360		

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract Number</u>	<u>Serial #, Lease of Acres</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
		Douglas H. Christensen	0.00009281	EnerQuest Oil & Gas, Ltd.	0.32284555		
		Eram Ali	0.00018563	Parsley Resources, Inc.	0.03853191		
		Armand Smith, Jr.	0.00097538	Artamyse Watts Oil, Ltd.	0.05977475		
		Matthew J. Parsley	0.00097538	Lone Star Oil & Gas	0.00375645		
		Evelyn M. Laney	0.00954861				
		Sugarberry Land Company	0.00352686				
		Kite Royalty Co., LLC	0.00110832				
		Viersen Oil & Gas Co.	0.00886657				
		EnerQuest Oil & Gas, Ltd.	0.00567221				
		Artamyse Watts Oil, Ltd.	0.00136409				
		Lone Star Oil & Gas	0.00009280				
60	HBP	Eram Ali	0.00018563	Eram Ali	0.01396442	Artamyse Watts Oil, Ltd.	0.00853925
		Jana Sue Barry, ssp	0.00023872	Douglas H. Christensen	0.00698220		
		Ro Jean Booth	0.00525174	Lois Sherrerd Clements Trust	0.00958602		
		Claudine Bradley, ssp	0.00023872	Anne Key Davis, ssp	0.04443360		
		Douglas H. Christensen	0.00009281	Anne Key Davis	0.02566502		
		Crump Family Partnership Ltd.	0.00196761	Dingus Investments, Inc.	0.08978358		
		Anne Key Davis, ssp	0.00110832	EnerQuest Oil & Gas, Ltd.	0.20950558		
		Dingus Investments, Inc.	0.00136124	David A. Godsey	0.04534903		
		EnerQuest Oil & Gas, Ltd.	0.00567221	Nancy Hershberger	0.00239653		
		Ruth Fosberg, ssp	0.00095486	Julie Ann Hopkins Trust	0.02221680		
		Leslie W. Gibbs	0.00477431	Mark Collver Hopkins Trust	0.03504936		
		Velma E. Gilmer Trust	0.02005208	Hugh B. Key, II, ssp	0.04443360		
		Julie Ann Hopkins Trust	0.00055416	Kite Royalty Co., LLC	0.03504933		
		Mark Collver Hopkins Trust	0.00055416	Carolyn V. Larson	0.00239653		
		Hugh B. Key, II, ssp	0.00110832	Lone Star Oil & Gas	0.00698221		
		Kite Royalty Co., LLC	0.00055416	Virginia G. Olincy Oil Trust	0.02875825		
		A. Jeanette Laney Trust	0.00572917	Parsley Resources, Inc.	0.07161998		
		Duane Laney, ssp	0.00023872	Christopher P. Renaud	0.05124011		
		Roy Nelson Laney, ssp	0.00954861	Armand Smith, Jr.	0.07162009		
		Vera N. Laney, ssp	0.02864583	Marie Urfer Stinnett	0.00479306		
		Lone Star Oil & Gas	0.00009281	James F. Urfer	0.00479306		

Exhibit "B"

**Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico**

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
7	Sec. 30: NE/4 SE/4	13.33	HBP	Anna Lois Lynch Revocable Trust	0.00477431	James F. Van Vranken	0.00239653		
				Loyce M. Matthews Trust	0.00477430	Robert Gordon Van Vranken, Jr.	0.00239653		
				P.T. Matthews Trust	0.00477430	White Star Royalty Co., LLC	0.03504933		
				Matthew J. Parsley	0.00097538				
				Rev. Ray D. Pinson	0.00525174				
				Armand Smith, Jr.	0.00097538				
				Rita Joyce Stone, ssp	0.00023872				
				Sugarberry Land Company	0.00352686				
				Viersen Oil & Gas Co.	0.00886657				
				Artamyse Watts Oil, Ltd.	0.00136409				
				White Star Royalty Co., LLC	0.00055416				
				Cascade Energy Corporation	0.02546297	Eram Ali	0.00650790	Fisher Family Partnership	0.00585938
				Robert S. Craine	0.04106922	Dingus Investments, Inc.	0.04123407	Ring Investments Corp.	0.00703125
				Vance Payne	0.00985670	EnerQuest Oil & Gas, Ltd.	0.14542559	Sophie Gimbel Estate	0.00156250
8	Sec. 30: NE/4 SE/4	26.67	HBP	Reese Minerals Limited Partnership	0.03125000	David A. Godsey	0.02596653	Jill A. Roberts Rev. Trust dated 10/27/83	0.00268555
				Caprock Minerals, LLC	0.00173611	Parsley Resources, Inc.	0.02059100	Susan A. Unterberg	0.00268555
				Laurie Juanita Scott	0.00347222	Armand Smith, Jr.	0.02059100	Jill A. Roberts Trust U/A IX A. Appleman Trust	0.00268555
				Angela Marie Reese	0.00173611	Vincero Oil and Gas, Inc.	0.23933025	Susan A. Unterberg Trust U/A IX A. Appleman Trust	0.00268555
				Irene Investments, Inc.	0.00260417	Dreka, Inc.	0.04525227	Peter J. Gould	0.00195313
				Ann Hooper Taylor	0.00520833	Murray E. Helmers	0.11374800	Robert S. Craine	0.03294006
				Colleen G.M. Wallace	0.00260417	George R. Kravis II Trust	0.08271484	Vance Payne	0.00587425
						The Raymond and Bessie Kravis Foundation	0.06767578		
				Cascade Energy Corporation	0.02546297	Eram Ali	0.00999911	Fisher Family Partnership	0.00585938
				Robert S. Craine	0.04106922	Dingus Investments, Inc.	0.06335441	Ring Investments Corp.	0.00703125
				Vance Payne	0.00985670	EnerQuest Oil & Gas, Ltd.	0.22344021	Sophie Gimbel Estate	0.00156250
				Reese Minerals Limited Partnership	0.03125000	David A. Godsey	0.03989640	Jill A. Roberts Rev. Trust dated 10/27/83	0.00268555
				Caprock Minerals, LLC	0.00173611	Parsley Resources, Inc.	0.03163720	Susan A. Unterberg	0.00268555

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
9 Sec. 31: N/2 N/2		160 HBP		Laurie Juanita Scott	0.00347222	Armand Smith, Jr.	0.03163720	Jill A. Roberts Trust U/A IX A.
				Angela Marie Reese	0.00173611	Vincero Oil and Gas, Inc.		Appleman Trust
				Irene Investments, Inc.	0.00260417	Dreka, Inc.	0.23933025	Susan A. Unterberg Trust U/A IX
				Ann Hooper Taylor	0.00520833	Murray E. Helmers		A. Appleman Trust
				Colleen G.M. Wallace	0.00260417		0.04525227	George R. Kravis II Trust
							0.11374800	The Raymond and Bessie Kravis Foundation
								Peter J. Gould
								Robert S. Craine
								Vance Payne
9 Sec. 31: N/2 N/2		160 HBP		Elmer R. Beebe	0.01093750	Eram Ali	0.01053575	Daniel M. Alexander or Padgett
				Norma L. Beebe	0.01093750	Douglas H. Christensen	0.00526787	Andrews Royalty, Inc.
				Katherine Bingham	0.01093750	Crump Family Partnership Ltd.	0.11167886	Bandera Minerals, III LLC
				Culroy P/A	0.00130215	Dingus Investments, Inc.	0.07726212	Lowell Deckert
				Keith Pratt Daniels	0.00585937	EnerQuest Oil & Gas, Ltd.	0.45353198	Llano Production Company
				Arnold Dunn	0.01093750	David A. Godsey	0.03360860	Magnolia Royalty Company, Inc.
				Pearline R. Elrod	0.01093750	Lone Star Oil & Gas	0.00526787	Morgan Capital Group, Inc.
				Sherri Faye Haliburton &	0.02734375	Parsley Resources, Inc.	0.05408638	Sapphire Royalties, Inc.
				Carl & Cybil Lee	0.00195313	Christopher P. Renaud	0.03753357	James R. Small
				McCaig Family Partnership	0.00065098	Armand Smith, Jr.	0.05408637	
10 Sec. 32: N/2 NE/4		80 HBP		Lajuan Miles	0.02734375			
				Lynda Pratt Rast	0.00585937			
				State of New Mexico	0.12500000	Eram Ali	0.00987500	Jim A. Dawson
						Douglas H. Christensen	0.00493750	Llano Production Company
						Crump Family Partnership Ltd.	0.10467500	Lowe Partners, LP
						Dingus Investments, Inc.	0.07241669	James R. Small
						EnerQuest Oil & Gas, Ltd.	0.42509406	Marshall R. Young Oil Company
						David A. Godsey	0.03150125	
						Lone Star Oil & Gas	0.00493750	
						Parsley Resources, Inc.	0.05069162	
				Christopher P. Renaud	0.03517969		0.03517969	
				Armand Smith, Jr.	0.05069169		0.05069169	

Exhibit "B"
Schedule of Ownership of Oil and Gas Interests East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description of Land</u>	<u>Number of Acres</u>	<u>Serial #, Lease Status</u>	<u>Royalty Ownership</u>	<u>Interest</u>	<u>Working Interest</u>	<u>Interest</u>	<u>Overriding Royalty</u>	<u>Interest</u>
11	Sec. 30: W/2 SW/4	80	HBP	Fleischaker Mineral Company LLC Rocket Oil & Gas Co. Stanley H. Singer Revocable Trust Teton Properties, LLC Three M Oil Company	0.02083374 0.10046820 0.00890620 0.01041686 0.01562500	Eram Ali Douglas H. Christensen Crump Family Partnership Ltd. Dingus Investments, Inc. EnerQuest Oil & Gas, Ltd. David A. Godsey Lone Star Oil & Gas Parsley Resources, Inc. Christopher P. Renaud Armand Smith, Jr.	0.00987500 0.00493750 0.10467500 0.07241669 0.42509406 0.03150125 0.00493750 0.05069162 0.03517969 0.05069169	Charter Royalty 94-1 Acq Fund James R. Small Marshall R. Young Oil Company	0.03062500 0.01312500 0.01000000
12	Sec. 30: E/2 SW/4, S/2 NW/4	160	HBP	Marjorie H. Augustine Jeannine Hooper Byron Roy Lee Cain Trustee Beverly V. Cox Nancy Iola Henry Jerry L & Margaret A. Hooper Jimmy J & Lynne C. Hooper William C. Humble Lora Mae Rawlings Jill A. Roberts Revocable Trust Lavita Joy Sullivan Susan Unterberg	0.00979170 0.00694440 0.02937500 0.00833330 0.05875000 0.00694440 0.00694440 0.00979170 0.01101560 0.00781250 0.01305560 0.00781250	Eram Ali Douglas H. Christensen Crump Family Partnership Ltd. Dingus Investments, Inc. EnerQuest Oil & Gas, Ltd. David A. Godsey Lone Star Oil & Gas Parsley Resources, Inc. Christopher P. Renaud Armand Smith, Jr.	0.01029284 0.00514643 0.10910434 0.07548096 0.44307888 0.03283450 0.00514643 0.05283810 0.03666832 0.05283810		

EXHIBIT "C"
Schedule of Tract Participation East Hobbs (San Andres) Unit
Lea County, New Mexico

<u>Tract #</u>	<u>Description</u>	<u>Lease Name</u>	<u>Acreage</u>	<u>Tract Participation Factor</u>
1	S/2 SW/4, NW/4 SW/4 Section 29, T-18-S, R-39-E	Carrie O. Davis	120	13.429043
2	S/2 NE/4 Section 30, T-18-S, R-39-E	D.F. Fergason	80	4.068310
3	NE/4 SW/4 Section 29, T-18-S, R-39-E	Zachary Davis	40	3.021763
4	SW/4 NW/4 Section 29, T-18-S, R-39-E	June Speight	40	1.202083
5	NW/4 SE/4, S/2 SE/4 Section 30, T-18-S, R-39-E	Laney	60	16.709133
6	NW/4 SE/4, S/2 SE/4 Section 30, T-18-S, R-39-E	Laney A	60	12.303748
7	NE/4 SE/4 Section 30, T-18-S, R-39-E	Laney Reese #1	13.33	5.134048
8	NE/4 SE/4 Section 30, T-18-S, R-39-E	Laney Reese #2 & #3	26.67	12.951740
9	N/2 N/2 Section 31, T-18-S, R-39-E	Pearl Goode	160	11.156731
10	N/2 NE/4 Section 32, T-18-S, R-39-E	Ralph Lowe State	80	5.876726
11	W/2 SW/4 Section 30, T-18-S, R-39-E	Rocket Cain	80	4.928334
12	E/2 SW/4, S/2 NW/4 Section 30, T-18-S, R-39-E	Samuel Cain	160	9.218341
TOTALS			920	100.000000

UNIT OPERATING AGREEMENT

FOR THE

EAST HOBBS (SAN ANDRES) UNIT

LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

FOR THE

EAST HOBBS (SAN ANDRES) UNIT

LEA COUNTY, NEW MEXICO

THIS AGREEMENT ("this agreement" or "this Operating Agreement"), entered into as of the first day of January 2002, 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, an agreement entitled, "Unit Agreement for the Development and Operation of the East Hobbs (San Andres) Unit, Lea County, New Mexico" (the "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 AND DEFINITIONS

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

1.2 Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. The words, terms and phrases used in this Agreement are written to convey the most common industry meaning or understanding, but shall also be construed to mean the plural if written in the singular and vice versa. In addition, the following terms, when used herein, shall have the following meanings:

1.2.1 Person is defined as any individual, corporation, partnership, common law or statutory trust, association of any kind, the State of New Mexico or any subdivision or agency thereof acting in a proprietary capacity, guardian, executor, administrator, fiduciary of any kind, or any entity capable of holding an interest in the Unit Area.

1.2.2 Oil and Gas Rights are the rights to explore, develop and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

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

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

1.2.5 Unit Operations are all operations conducted pursuant to this Agreement and the Unit Agreement.

1.2.6 Unit Operator is the party designated by Working Interest Owners under this Agreement to conduct Unit Operations.

ARTICLE 2 EXHIBITS

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

2.1.1 Exhibits "A", "B" and "C" of the Unit Agreement.

2.1.2 Exhibit D attached hereto is a schedule showing the percentage of total Unit Participation attributable to each Working Interest Owner in each Tract. Exhibit "D", or revisions thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participation of the Working Interest Owners for purposes of this agreement until shown to be in error or as revised as herein authorized.

2.1.3 Exhibit "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit "E", this agreement shall govern.

2.1.4 Exhibit "F", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit "G", attached hereto, contains an inventory of wells, equipment and other personal property to be utilized in Unit Operations and a pricing of such material.

2.2 Revision of Exhibits. Whenever Exhibits "A", "B" and "C" are revised, Exhibit "D" shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise the Exhibit "D" 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.

2.3 Reference to Exhibits. Whenever reference is made herein to an exhibit, it is to the exhibit as originally attached, or if revised, to the last revision.

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 conducted 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, enhanced recovery or other recovery program to be employed.

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

3.2.3 Well Recompletion 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 Unit Operator's Tools and Equipment. The use by Unit Operator of its own tools and equipment in the drilling of a well or in any other operation in which drilling equipment is required.

3.2.5 Expenditures. The making of any single expenditure in excess of Twenty- Five Thousand Dollars (\$25,000.00); 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 therefore, and for completing, testing and equipping the same including necessary flow lines, separators and lease tankage.

3.2.6 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 in excess of Ten Thousand Dollars (\$10,000.00).

3.2.7 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; and shall be made in accordance with Article 4, Paragraph 4.3.2; provided that, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf, at its expense.

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

(a) Not be conducted more than once each year, except upon the resignation or removal of Unit Operator;

(b) Be made upon the approval of sixty percent (60%) or more of the Unit Participation interests of the Working Interest Owners, after excluding the Unit Participation interest of the Unit Operator, voting in the affirmative, at the expense of all Working Interest Owners, other than the Working Interest Owner designated as Unit Operator; and

(c) Be made upon not less than thirty (30) days written notice to Unit Operator and in accordance with guidelines established by the Council of Petroleum Accountants Societies.

3.2.9 Inventories. Taking of periodic inventories under the terms of Exhibit "E".

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

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

3.2.12 Removal of Unit Operator. The removal of Unit Operator and the selection of a successor as provided in the Unit Agreement.

3.2.13 Changes and Amendments. The changing of the Unit Area or the amending of this agreement or the Unit Agreement as provided by the Unit Agreement.

3.2.14 Investment Adjustment. The adjustment and readjustment of investments.

3.2.15 Termination of Unit Agreement. The termination of the Unit Agreement as provided therein.

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 representative and alternate 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 (1) or more of the Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called less than fourteen (14) days advance written notice. The Owner requesting the meeting shall prepare an agenda outlining the topics to be discussed at the proposed meeting and attach it to the notice requesting the meeting. Working Interest Owners who attend the meeting shall not be prevented from adding to or amending items on the agenda or from acting upon the amended items or other added items presented at the meeting. The representative of the Unit Operator shall be chairman of each meeting. The Unit Operator will prepare and furnish minutes of all meetings to the Working Interest Owners.

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 - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of two-thirds or more voting interest; provided that, should any one Working Interest Owner have more than two-thirds of the voting interest, its vote must be supported by the vote of one (1) or more Working Interest Owners; provided, further however, that the negative vote of any one Working Interest Owner having more than one-third (1/3) but less than one-half (1/2) of such voting interest shall not defeat a motion or measure, unless such owner is joined by the negative vote of one or more other Working Interest Owners.

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, fax or telegram addressed to the representative of the Unit Operator, if its vote is received prior to the vote on the item. Such vote will not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote by letter, fax or telegram on any matter submitted in writing to all Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall control. Failure to vote within the time prescribed by the Unit Operator, which shall be no less than fourteen (14) days after receipt of such matter, shall be deemed to be a positive vote with respect to the proposal. Unit Operator shall give prompt notice of the results of such voting to each Working Interest Owner.

4.3.5 Binding Effect of Vote. All Working Interest Owners shall be bound for their proportionate share of all costs and expenses of Unit Operations approved by the Working Interest Owners by the vote required herein.

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 at Working Interest Owner's sole risk and expense to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

5.3 Taking Unitized Substances in Kind. The Unitized Substances allocated to each Tract shall be taken in kind by the respective parties entitled thereto by virtue of the ownership of Oil and Gas Rights therein or by purchase from such owners. Such parties shall have the right at their sole cost and expense, to construct, maintain and operate within the Unit Area all necessary facilities for that purpose, provided that they are so constructed, maintained and operated as not to interfere with Unit Operations. Any extra expenditures incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the receiving party. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose working interest is subject to such Royalty Interest shall be entitled to take in kind such share of Unitized Substances.

5.4 Failure to Take in Kind. If any party fails to take in kind or separately dispose of such party's share of Unitized Substances, Unit Operator shall have the right, but not the obligation, for the time being and subject to revocation at will by the party owning the share and giving Unit Operator thirty (30) days written notice thereof, to purchase such share for its own account or to sell to others, at the same market value realized by Unit Operator. However, should Unit Operator's purchaser of Unitized Substances be an affiliate, such party's share of Unitized Substances shall be purchased by Unit Operator or sold, unless otherwise agreed to in writing, at an equivalent price to the best price obtainable in the area for such production from an independent purchaser. The intent of the parties is to keep the production and the sale of Unitized Substances balanced at all times. Contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid in accordance with the Unit Agreement and applicable laws and regulations.

5.5 No Sharing of Market. Nothing herein shall be construed to provide directly or indirectly for any cooperative refining, joining sale or marketing of Unit Production.

ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator. EnerQuest Resources, LLC is hereby designated Unit Operator.

ARTICLE 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations. Notwithstanding anything contained herein or in the Unit Agreement to the contrary, Unit Operator shall not be deemed to be a fiduciary on behalf of Working Interest Owners or have the duties and responsibilities associated with a fiduciary or agency relationship. In its performance of services hereunder for Working Interest Owners, the Unit Operator shall act in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. The conduct of Unit Operator shall comply with Article 7.2 below but as noted above shall not give rise to any fiduciary relationship or duties.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages caused by its operations unless such damages result from its gross negligence or willful misconduct. **EXCEPT FOR UNIT OPERATOR'S INTEREST IN THE UNIT AREA (IF ANY), WORKING INTEREST OWNERS SHALL INDEMNIFY UNIT OPERATOR FOR, FROM, AND AGAINST ANY AND ALL CLAIMS, DAMAGES AND LIABILITY OF EVERY KIND AND CHARACTER (INCLUDING ALL COSTS AND EXPENSES, INCLUDING BUT NOT LIMITED TO ATTORNEYS FEES), RESULTING FROM, ARISING OUT OF, OR INCIDENTAL TO UNIT OPERATOR'S PERFORMANCE OF DUTIES ON THE UNIT AREA EVEN IF SUCH LIABILITIES ARISE FROM OR ARE ATTRIBUTABLE TO UNIT OPERATOR'S NEGLIGENCE. THE ONLY LIABILITIES TO WHICH THIS INDEMNITY OBLIGATION DOES NOT APPLY ARE THOSE RESULTING FROM UNIT OPERATOR'S GROSS NEGLIGENCE OR INTENTIONAL TORTS FOR WHICH UNIT OPERATOR SHALL BE SOLELY RESPONSIBLE.**

7.3 Liens and Encumbrances. Unit Operator shall keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor and compensation shall be determined in a reasonable manner by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts and records of Unit Operation.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports on Unit Operation.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Twenty-Five Thousand Dollars (\$25,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its reasonable 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. Upon request, Unit Operator shall furnish Working Interest Owners, for information purposes, copies of its Authorities for Expenditures for any single project costing in excess of Twenty-Five Thousand Dollars (\$25,000.00), and for lesser amounts when prepared for Unit Operator's own use.

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 therefore 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 Severance, Gross Products and Ad Valorem Taxes. Beginning with the first calendar year after the effective date hereof, Unit Operator shall render and pay on behalf of the Working Interest Owners severance and gross products taxes assessed on oil and gas produced and ad valorem tax on all property subject to this agreement, before they become delinquent. Prior to the rendition date, each Working Interest Owner shall furnish the Unit Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) and taxable and non-taxable interests on leases and oil and gas interests contributed by such Working Interest Owner. If the assessed tax of any leasehold estate or produced Substances is reduced by reason of its being subject to outstanding excess royalties, overriding royalties, reimbursements, or production payments, the reduction in taxes shall inure to the benefit of the owner or owners of such leasehold or Unitized Substances, and Unit Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Unit Operator shall charge the Working Interest Owners for their proportionate share of severance and gross products tax at the date the tax is assessed based on the value each Working Interest Owner receives for their sales of the unitized substances. Unit Operator shall charge the Working Interest Owners for their proportionate share of all other tax payments in the manner provided in Exhibit "E" and other parties for their share in the manner provided in the Unit Agreement.

If Unit Operator considers any tax assessment improper, Unit Operator may, after notice to Working Interest Owners, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. All direct expenses incurred by Unit Operator in protesting an assessment will constitute a direct charge to the joint account. During the pendency of administrative or judicial proceedings, Unit Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax for the joint account and other parties, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them as provided in Exhibit "E" and the Unit Agreement, respectively.

8.2 Notices. Each Working Interest Owner shall promptly furnish the Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by the Unit Operator. Each month, the Working Interest Owners shall furnish the Unit Operator with

the gross value of any production taken in kind or other information necessary in order for the Unit Operator to compute the severance and gross products tax on the unitized substances.

8.3 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all gathering or other taxes or excises due the State of New Mexico, the Federal Government, or otherwise, together with all licenses and excises, which are now imposed or may be imposed upon or with 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 Comply with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit "F".

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. All wells completed or to be completed in the Unitized Formation, as shown in the initial Plan of Operation and Development and all service wells to be utilized for Unit Operations, including water supply and disposal wells, completed within or outside the Unitized Formation.

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

10.1.3 Records. A complete copy of all production and well records that pertain to such wells. In the event a Working Interest Owner fails to provide Unit Operator with said records within sixty (60) days of the Effective Date, then the Unit Operator is hereby authorized to suspend in-kind delivery or payment of proceeds of production to said Working Interest Owner, of its share of Unit Production, until said records are provided to the Unit Operator.

10.2 Inventory and Evaluation of Personal Property. The Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest owners, the personal property taken over. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit "G" except, upon determination of Working Interest Owners, items considered non-controllable may be included in the inventory but shall be excluded from evaluation and investment adjustment. Casing shall be included in the inventory for record purposes, but shall be excluded from pricing and investment adjustment.

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 evaluated under Section 10.2, 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 and evaluated under Section 10.2 by the 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.

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.

10.6 Adjustment for Non-Usable Wells. All wells delivered to the Unit Operator shall be (a) in usable physical condition, (b) completed in some portion of the Unitized Formation, and (c) physically separated from formations not a part of the Unitized Formation as of the Effective Date. If within three (3) months from the date of takeover, Unit Operator reports to Working Interest Owners, the wells that were not in suitable condition to serve Unit Operator on the date of takeover and the Working Interest Owners approve, Unit Operator shall properly place such well in suitable condition to serve Unit Operator, or drill a substitute well if such well cannot be placed in suitable condition to serve Unit Operator, at the sole cost of the Working Interest Owner who delivered such well and casing to Unit Operator. It is the intent of this Section 10.6 that the cost of normal conversion of wells and casing therein from operating practices utilized immediately prior to the date of takeover to operating practices contemplated hereunder shall be a Unit Expense.

10.7 Surface Leases. Upon the effective date hereof Working Interest Owners shall deliver to Unit Operator assignment(s) of all surface lease agreements pertaining to the Unit Area, but only to the limited extent they relate to production from the Unitized Formation or Unit Operations. Unit Operator shall become responsible for all future rentals on behalf of Working Interest Owners. All said surface unit rental costs shall be apportioned to each Working Interest as set forth in Exhibit "D".

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charges to Working Interest Owners. Unit Operator initially shall pay and discharge all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of Unit Expense shall be the same as its Unit Participation.

11.2 Advance Billing. 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 thirty (30) 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.

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

11.4 Lien and Security Interests. Each Working Interest Owner grants to the other Working Interest Owners and to Unit Operator a lien upon any interest it now owns or hereafter acquires in Oil and Gas Rights and Working Interests in the Unit Area, and a security interest and/or purchase money security interest in all of its interest in all personal property and equipment used or obtained for use in connection therewith, all fixtures now or hereafter located thereon, all Unitized Substances extracted therefrom and all accounts arising from the sale at the wellhead of Unitized Substances produced therefrom, to secure performance of all its obligations under this Agreement including but not limited to payment of Unit Expense, interest, attorney fees, court costs, cost of collection, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil and Gas Rights as required hereunder, and the proper performance of operations hereunder. Such lien and security interest granted by each Working Interest Owner hereto shall cover and include all of such Working Interest Owner's leasehold interest, Working Interests, operating rights, and Royalty Interests and overriding royalty interests in the Unit Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject to this Agreement, the Unitized Substances when extracted therefrom and fixtures and equipment now or hereafter situated thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts

(including, without limitation, accounts arising from gas imbalances or from the sale of Unitized Substances at the wellhead), contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the foregoing.

Each Working Interest Owner hereby grants, sells, assigns, sets over and mortgages into Unit Operator and the other Working Interest Owners during the term of this Agreement, all of such Working Interest Owner's rights and interests pursuant to the provisions of Sections 48-9-1, et seq., N.M.S.A. 1978 Comp. (the "New Mexico Act"), hereby vesting in Unit Operator and the other Working Interest Owners all of such Working Interest Owner's rights as an interest owner to the continuing security interest in and lien upon the production of the Unitized Substances. Any other Working Interest Owner or Unit Operator may, at its option, file the verified notice of lien in order to perfect such lien, but shall not be obligated to make such filing and shall not be held liable to such Working Interest Owner for any act or omission pursuant to the New Mexico Act.

To perfect the lien and security agreement provided herein, each Party hereto shall execute and acknowledge this Agreement, and this Agreement is to be filed for record in the real property records. Unit Operator is authorized to file this Agreement as a lien or mortgage in the applicable records and as a financing statement with the proper officer under the Uniform Commercial Code or other applicable laws in the state in which the Unit Area is situated and such other states as Unit Operator shall deem appropriate to perfect the security interest granted hereunder. Any Working Interest Owner may file this Agreement or such other documents as it deems necessary as a lien or mortgage in the applicable records and/or a financing statement with the proper officer under the Uniform Commercial Code.

All Working Interest Owners acquiring an interest in Oil and Gas Rights and Working Interest covered by this Agreement whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Section 11.4 as to all obligations attributable to such interest hereunder.

To the extent that Unit Operator or the Working Interest Owners have a security interest under the Uniform Commercial Code or other applicable laws of the state in which the Unit Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Uniform Commercial Code or such other laws. The bringing of a suit and the obtaining of judgment by the Unit Operator or a Working Interest Owner 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 Working Interest Owner in the payment of its share of expenses, interest, or fees, or upon the improper use of funds by the Unit Operator, the other Working Interest Owners shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as provided in Exhibit "E", has been received, and shall have the right to offset the amount owed against the proceeds from the sale of such defaulting Working Interest Owner's share of Unitized Substances. All purchasers of production may rely on a notification of default from the non-defaulting Working Interest Owner(s) stating the amount due as a result of the default, and all Working Interest Owners waive any recourse available against purchasers for releasing production proceeds as provided in this Section 11.4.

If any Working Interest Owner does not perform all of its obligations hereunder, and the failure to perform subjects such Working Interest Owner to foreclosure or execution proceedings pursuant to the provisions of this Agreement, to the extent allowed by governing law, the defaulting Working Interest Owner waives any available right of redemption from and after the date of judgment, and any required valuation or appraisal of the mortgaged or secured property prior to sale, any available rights to stay execution or to require a marshalling of assets and any required bond in the event a receiver is appointed. Pursuant to Section 39-5-19 of New Mexico Statutes, 1978 Annotated, the redemption period after foreclosure sale for any mortgaged or secured property situated in or otherwise subject to the jurisdiction of the State of New Mexico shall be limited to one (1) month. In addition, to the extent permitted by applicable law, each Working Interest Owner hereby grants to the Unit Operator and the other Working Interest Owners a power of sale as to any property that is subject to the lien and security rights granted hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable manner and upon reasonable notice.

To the extent permitted by applicable law, each Working Interest Owner agrees that the Unit Operator and the other Working Interest Owners shall be entitled to utilize the provisions of oil and gas lien law or other lien law of the state in which the Unit Area is situated to enforce the obligations of each Working Interest Owner hereunder. Without limiting the generality of the foregoing, to the extent

permitted by applicable law, non-operators agree that Unit Operator may invoke or utilize the mechanics' or materialmen's lien law of the state in which the Unit Area is situated in order to secure the payment to Unit Operator of any sum due hereunder for services performed or materials supplied by Unit Operator.

11.5 Default. If any Working Interest Owner does not pay its share of Unit Expense when due, Unit Operator may give such Working Interest Owner notice that unless payment is made within fifteen (15) days, such Working Interest Owner shall be in default. Any Working Interest Owner in default shall not be entitled to vote on any matter until such time as said Working Interest Owner's payments are current. The voting interest of each Working Interest Owner entitled to vote on any issue shall be in the proportion its Unit Participation bears to the Unit Participation of all non-defaulting Working Interest Owners at the time. A Working Interest Owner in default will remain subject to the rights and obligations of this Agreement.

11.6 Unpaid Unit Expenses. If any Working Interest Owner, other than Unit Operator, 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. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest 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, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-Out Interests. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest and created after the Effective Date of this agreement shall be subject to this agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Article 11.5 are insufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to said rights.

11.8 Pre-Unitization Expense. Prior to the Effective Date, Unit Operator and other Working Interest Owners have incurred certain costs and expenses for and on behalf of the Working Interest Owners in anticipation of the Unit Agreement and this agreement becoming effective, including but not limited to title review, document preparation, mailings and attorneys' fees related to presentation of the unitization proposal to the Division. Such costs approved by the Working Interest Owners shall herein be referred to as "Pre-Unitization Expenses". As soon as practicable after the Effective Date of this agreement, Pre-Unitization Expenses shall be reallocated and billed among all Working Interest Owners in accordance with the Unit Participation interest of each such owner. Credit shall be given for payments made by Working Interest Owners prior to the Effective Date for costs included in the Pre-Unitization Expenses. 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 charge described above.

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 a formation underlying the Unit Area, 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 Owner 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.

12.2 Dual Completions. There shall be no dual completions of wells within the Unit Area as to the Unitized Formation and another formation.

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 "D", and hereby agrees to indemnify and hold harmless the other Working Interest Owners from 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 Rights 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 formation unitized hereunder or the Unit Equipment, and to that extent waives the benefits of all laws authorizing such partition.

ARTICLE 14 UNLEASED INTERESTS

14.1 Treated as Leased. If a Working Interest Owner owns in fee all or a part of the Oil and Gas Rights in any Tract within the Unit Area which is not subject to any oil and gas lease or other contract in the nature thereof, such Working Interest Owner shall be deemed to own a Working Interest in such Tract to the extent of seven-eighths (7/8ths) of its interest therein and a Royalty Interest with respect to the remaining one-eighth (1/8th) interest therein.

ARTICLE 15 LIABILITIES, CLAIMS, SUITS, AND FORCE MAJEURE

15.1 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, joint venture, association or trust of any kind among the Working Interest Owners.

15.2 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.

15.3 Notices of Damages, Claims and Suits by Unit Operator to Lessees. Unit Operator shall report to Lessees as soon as practicable after each occurrence, damages or losses to Unit Equipment, and accidents, occurrences, claims or suits involving third party bodily injury or property damage which are not covered by insurance carried for the benefit of Lessees.

15.4 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, services or equipment, 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 Article.

ARTICLE 16 INTERNAL REVENUE PROVISION

16.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement are excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, or such portion thereof as the Secretary of the 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 17 NOTICES

17.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when received by mail, overnight delivery, facsimile transmission (fax), electronic mail (e-mail) or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

17.2 Notice of Transfer of Title. No change of title shall be binding on the 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 18 WITHDRAWAL OF WORKING INTEREST OWNERS

18.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest 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 the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, excluding any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be

relieved from all further obligations and subsequently accrued liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

18.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 18.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any Royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of a one-eighth (1/8th) lessor's Royalty, unless the other Working Interest Owners are willing to accept the assignment and agree to accept the Working Interest, subject to such burdens.

ARTICLE 19 ABANDONMENT OF WELLS

19.1 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, the 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 thirty (30) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after Working Interest Owners of the Tract have notified Unit Operator of their election 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 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.

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

ARTICLE 20 EFFECTIVE DATE AND TERM

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

20.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 21, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 21 ABANDONMENT OF OPERATIONS

21.1 Termination. Upon termination of the Unit Agreement, the following will occur:

21.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts and other instruments affecting the separate Tracts.

21.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and to continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to properly plug each well at such time as it is abandoned.

21.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be properly plugged and abandoned and cause the surface of the Unit Area to be restored in compliance with applicable laws, rules, regulations, orders, and contractual obligations.

21.1.4 Cost of Salvaging. The cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations shall constitute a Unit Expense to be borne by the Working

Interest Owners in proportion to their respective Unit Participation. The cost of abandonment of Unit Operations and surface restoration of the Unit Area shall be Unit Expense except on wells taken over by a Working Interest Owner.

21.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their respective Unit Participations.

ARTICLE 22 SIGNING, RATIFICATION, OR APPROVAL

22.1 Original, Counterparts, or Ratifications. This agreement may be signed, ratified or approved by signing the original of this instrument, a counterpart or other instrument adopting the provisions hereof, all with the same effect as if all persons had signed the same instrument. Persons signing, ratifying or otherwise approving this agreement thereby agree to all of the provisions hereof.

22.2 Prior Agreements. It is recognized there are certain existing agreements by and between several of the Lessee or Working Interest Owners hereto, covering a portion of the Oil and Gas Rights subject to this Operating Agreement. In case of any inconsistency or conflict between this Operating Agreement and those certain existing agreements, this Operating Agreement shall govern.

ARTICLE 23 SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. The provisions 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 respective heirs, devisees, legal representatives, successors and assigns of the parties hereto.

ARTICLE 24 OTHER PROVISIONS

24.1 Environmental Warranty and Representation. Each Working Interest Owner that operates a property to be contributed to the Unit, represents and warrants that it has conducted the following environmental review of the contributed property:

- (a) A review of applicable lease and well file information and of any other sources of information that would be relevant to evaluating the environmental status of the contributed property.
- (b) A visual inspection of the contributed property to identify any obvious past or present land uses that dictate further investigation.

Prior to the Effective Date, each Working Interest Owner that operates a property to be contributed to the Unit shall report the results of such review and inspection, in writing, to all other Working Interest Owners, including the Unit Operator.

24.2 Removal of Surplus Equipment. The applicable Working Interest Owner shall be responsible and liable for the removal of (a) any surplus equipment or facilities deemed unnecessary for the operation of the Unit by the Unit Operator, and (2) junk and/or debris from their contributed property, including, but not limited to, chemical drums, paint cans, grease buckets, rags, tires, belts, sucker rods, tubing, paraffin, and oil filters. Should any tank batteries or facilities be deemed surplus equipment due to consolidation or otherwise, in addition to removal of the same, the applicable Working Interest Owner shall be required to conduct environmental remediation to the level required by the agency regulating such remediation, if any, or as required by the applicable oil and gas leases. Within 180 days of the Effective Date, should any well be deemed surplus or unnecessary for the operation of the Unit, all costs associated with said well shall remain the responsibility of the well's operator and the applicable Working Interest Owner, said costs shall include, but not limited to, (i) the cost of well plugging and abandonment, and (ii) all costs of environmental remediation of the area around said well which is associated with the operation, plugging and abandonment of said well to the level required by the agency regulating such remediation, if any, or as required by the applicable oil and gas leases. Any surplus equipment, facilities, junk and/or debris that is not removed by the applicable Working Interest Owners within 180 days from the Effective Date will then be removed by the Unit Operator, but associated expenses will be charged directly back to said Working Interest Owner.

24.3 Environmental Indemnification. Notwithstanding any others provisions set forth herein, the Working Interest Owners of lands contributed to the Unit shall retain all environmental liability of any nature, whatsoever, caused by or resulting from its operations, or the operations of others, prior to the Effective Date hereof, and shall indemnify and hold harmless all other Working Interest Owners in the Unit against all claims, demands, damages, losses, liabilities, penalties, fines, liens, judgements, costs or expenses, including attorney's fees, whatsoever, foreseen or unforeseen, that may arise on account of or in any way be connected with the physical condition of the lands prior to inclusion of said equipment, facilities and/or lands into this Unit. This includes, but is not limited to, environmental liability claims brought under any state, federal, or local law, order or regulation, whether known or unknown at this time.

24.4 Governing Law. This Agreement and all matters pertaining hereto, including, but not limited to matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the State of Texas (excluding any conflict of laws provision that would require the application of the laws of any other jurisdiction). In the event of any litigation or other proceeding in connection with this Agreement, the venue for any such proceeding shall be in a court of competent jurisdiction located in Midland County, Texas.

IN WITNESS WHEREOF, the parties hereto have caused this Operating Agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR

ENERQUEST RESOURCES, LLC
